PHILIP MORRIS

THREE YEAR

1994-1996

PHILIP MORRIS EEMA REGION

2500065216

CONFIDENTIAL

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Regional Summary

REGIONAL SUMMARY

	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
UNIT VOLUME (BIO)	114.7	169.3	206.6	228.0	25.7
INCOME FROM OPERATIONS ($ MIO)	566.5	670.0	801.0	937.0	18.3

- The EEMA Region consists of 107 markets, with a total industry volume of one trillion units, and contains many of the world's most volatile and rapidly changing economies and cigarette markets.

- Although volume has been growing rapidly in the newly opened markets of Central and Eastern Europe, PM's IFO is still concentrated in the more prosperous but smaller markets of the EFTA countries and the Middle East.

	% OF TOTAL - LE1993				
	Population	GDP	Industry Volume	PM Volume	PM IFO
EFTA/ Baltics	3.4	47.4	6.3	16.7	23.8
Central Europe	9.1	8.9	23.5	29.7	17.6
Eastern Europe	21.2	5.5	31.4	11.4	5.1
Turkey	4.3	5.6	8.1	12.0	16.9
Middle East/Levant	11.0	14.6	12.1	18.5	26.3
North Africa	9.2	6.6	8.4	3.5	4.9
Sub-Saharan Africa	41.8	11.4	10.2	8.2	5.4
	100.0	100.0	100.0	100.0	100.0
Total	1,354 mio	$2,248 bio	1,019 bio	115 bio	*$608 mio

* Before Regional items

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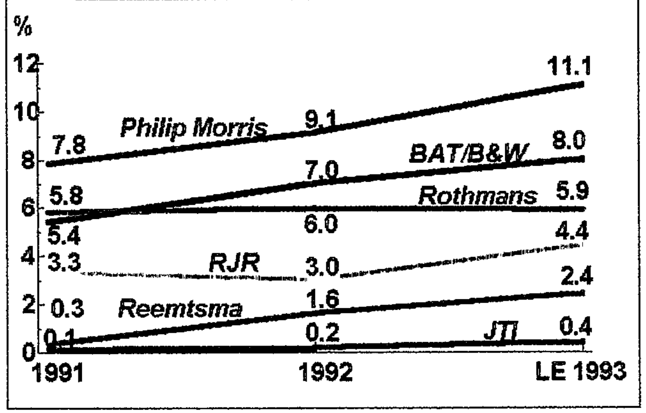
- Although all of our international competitors, except Rothmans, have gained share of total Regional industry volume in 1993, we have widened our lead over our nearest competitor, BAT, and our growth was more evenly distributed throughout the Region,



MARKET SHARES OF MAJOR INTERNATIONAL MANUFACTURERS - EEMA REGION

Volume Variances of International Manufacturers LE1993 vs. 1992 (Bio)

	PM	BAT	RI	RJR	REEMTSMA	JTI
EFTA/ Baltics	1.7	(0.3)	(0.1)	(0.1)	-	-
Central Europe	5.3	0.4	(2.4)	0.4	7.7	0.7
Eastern Europe	4.3	10.5	0.5	14.0	(0.2)	-
Turkey	3.5	-	(0.2)	0.1	-	-
Middle East	(0.9)	(1.4)	1.1	(1.6)	-	0.9
Africa	2.4	(0.9)	(1.5)	-	-	-
Total	16.3	8.3	(2.6)	12.8	7.5	1.6

- BAT and RJR's apparent lead in Eastern Europe relates to acquired local production. With our recent acquisition of the Krasnodar and Almaty factories, we will also lead in this area in 1994.

- During the Plan period we will increase our Regional leadership position by:
  - continuing to grow profitably in the mature markets of the EFTA countries and the GCC
  - increasing our penetration in our priority growth markets of Central and Eastern Europe, Turkey, Iran and Egypt.
  - launching new brands or line extensions of existing brands faster than our competitors.
  - improving productivity
  - investing in talented people

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- This is reflected in the Plan volume and IFO objectives:

	UNIT VOLUME (Bio)					IFO ($ Mio)				
	LE 1993	1996	CAG % LE93-96	Increase LE93-96	% of Total Increase	LE 1993	1996	CAG % LE93-96	Increase LE93-96	% of Total Increase
Mature Markets										
• **EFTA**	15.5	16.4	1.9	0.9	0.8	128.7	151.5	5.6	22.8	5.9
• **GCC**	11.0	13.4	6.9	2.4	2.1	134.8	170.2	8.1	35.4	9.2
	26.5	29.8	3.4	3.3	2.9	263.5	321.7	6.9	58.2	15.1
Priority Growth Markets										
• **Central Europe**	34.1	81.9	33.9	47.8	42.2	107.2	250.1	32.6	142.9	37.2
• **Eastern Europe**	13.1	55.5	61.8	42.4	37.4	31.1	80.0	37.0	48.9	12.7
• **Turkey**	13.8	18.8	10.9	5.0	4.4	102.7	142.5	11.5	39.8	10.3
• **Iran**	0.8	1.4	21.6	0.6	0.5	0.3	6.1	100.0+	5.8	1.5
• **Egypt**	2.3	3.3	13.1	1.0	0.9	17.2	30.0	20.3	12.8	3.3
	64.1	160.9	35.9	96.8	85.4	258.5	508.7	25.3	250.2	65.0
Other Markets	24.1	37.3	15.7	13.2	11.7	86.4	162.6	23.5	76.2	19.9
Total Areas	114.7	228.0	25.7	113.3	100.0	608.4	993.0	17.7	384.6	100.0
Unallocated Expenses						(41.9)	(106.0)	(36.3)	(64.1)	
Productivity Savings						*-	50.0	-	50.0	
Total Region						566.5	937.0	18.3	370.5	

* Included in markets

- 85.4% of our Regional volume growth and 65.0% of our Regional IFO growth over the Plan period will come from our priority growth markets.

- The Plan includes the recent acquisitions of Krasnodar and Almaty, as of January 1, 1994, the acquisition of ZPT Krakow in Poland as of July 1994, and the Kharkov factory in the Ukraine as of July, 1995.

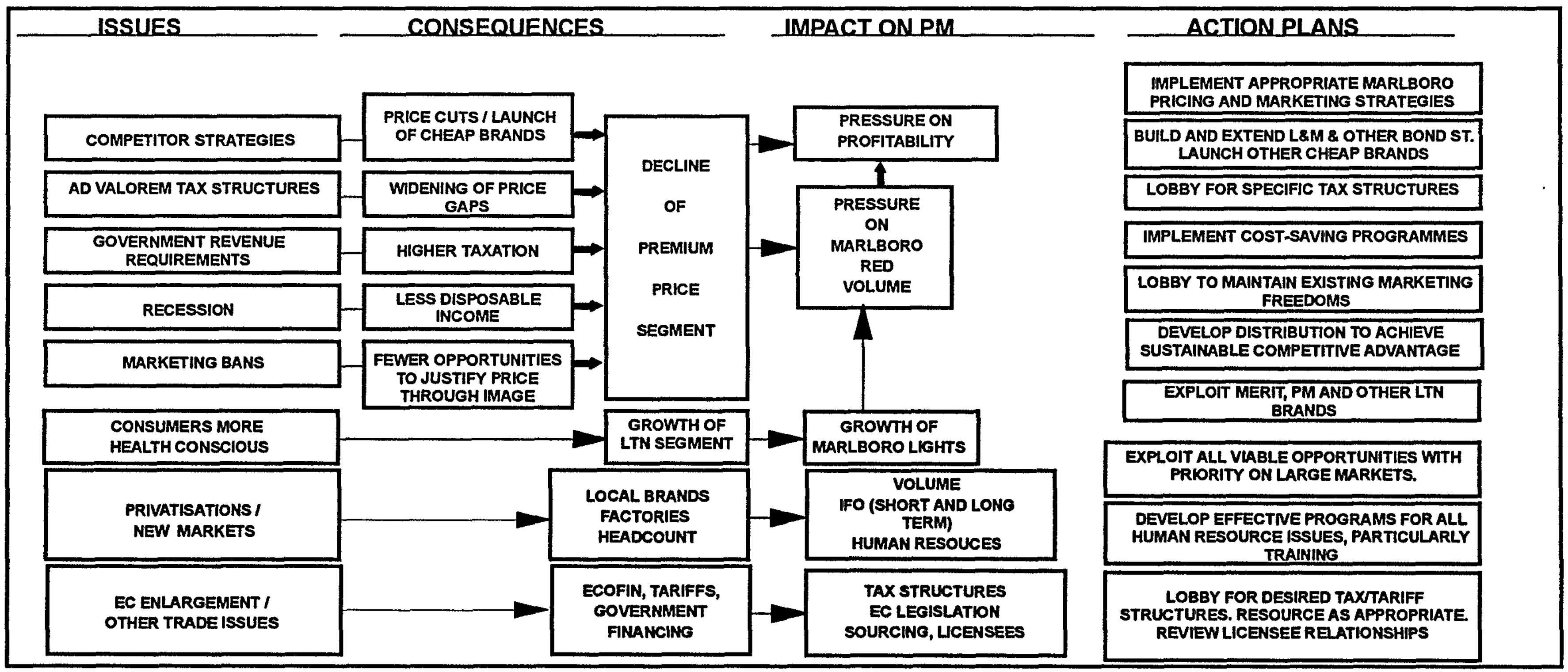
- A total of 88 new brand launches or line extensions are included during the Plan period, excluding the local brands we will acquire in Poland and Eastern Europe, resulting in an 11.9 billion units incremental volume, or 10.5% of Regional volume

growth, as follows:

	Incremental Volume 1994 - 1996 (Bio)
Marlboro	3.3
L&M	2.6
Bond St.	1.2
Other International	4.8
Total	11.9

- Acquired local brands, mainly from ZPT Krakow, will generate 37.8 billion units incremental volume, or 33.4% of Regional volume growth.

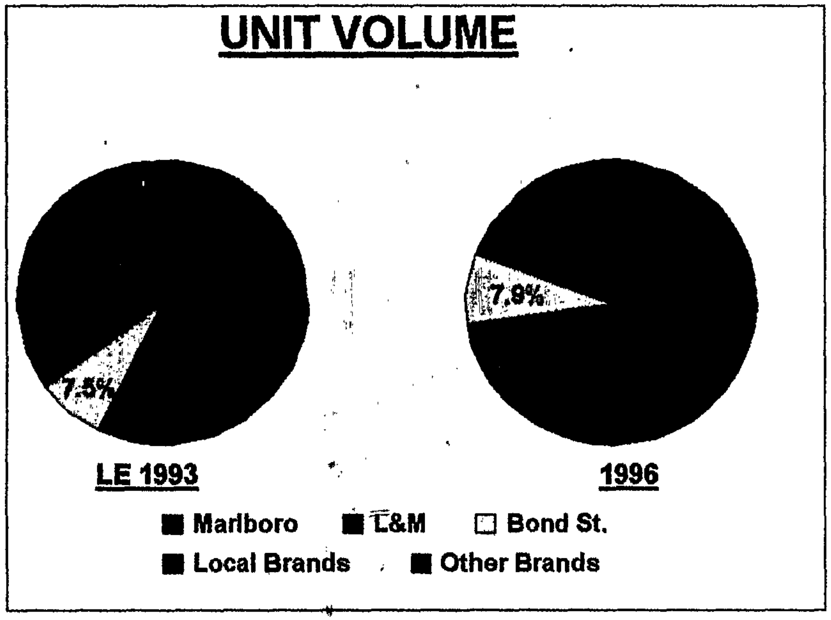
- The issues we will face in the Region during the Plan period, their impact and our plans to address them can be summarised as follows:

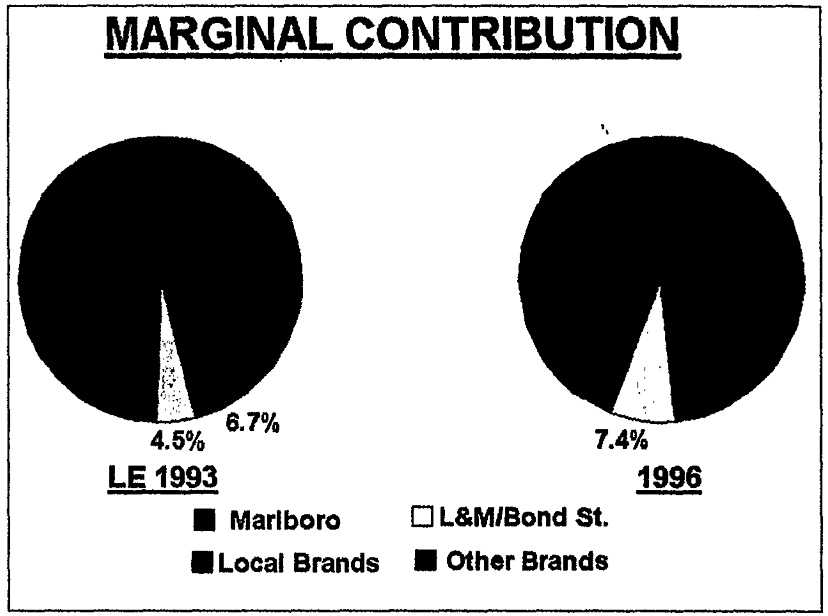


- **To keep Marlboro growing**, we have been conservative with price increases to ensure that the brand stays affordable, and that the price gap with cheap brands is narrowed, or at least not widened. As a result, the marginal contribution per 000 for Marlboro on a regional basis grows only slightly over the Plan period.

LE 1993	1994	1995	1996
$13.87	$13.44	$13.84	$13.90

- Over the Plan period, the importance of Marlboro in our brand mix will decline substantially due to **the growth of our international value brands, particularly L&M and Bond St., and to the acquisition of local brands in Central and Eastern Europe.** However, Marlboro will retain its importance in our marginal contribution mix.





- The increasing importance of L&M and Bond St., and low price local brands in our brand mix, will result in our overall Regional marginal contribution per 000 declining from $9.47 in 1993 to $7.26 in 1996.

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- Our plans to lobby for **more favourable tax and duty structures** and to maintain marketing freedoms are detailed in the Regional Corporate Affairs Plan.

- Related particularly to tax and duty structures is the potential impact of EC enlargement and other trade agreements emerging over the Plan period.

- Austria, Finland, Norway and Sweden have applied to join the EC, and subject to approval by their national populations, could become members by 1996.

- This will ultimately have implications for taxation, sourcing, advertising, license agreements, competition law and the maintenance of duty free, amongst others, and a PM task force has been established to evaluate and co-ordinate the key aspects of a wider EC.

- In addition to the applicant countries, other countries such as Switzerland, the Czech Republic, Poland, Hungary and Turkey are all trying to develop closer trading relationships with the EC, with a view to eventual membership, and will therefore be influenced by EC legislation and particularly excise tax directives.

- If the EC ECOFIN excise tax requirements were implemented today in the above mentioned countries, the result would mean excise tax increases everywhere. The adjunct proposal of ECU 40 per 000 would, however, result in tax increases only in the Central European countries and Turkey.

	% of MPPC Excise Tax Incidence	VAT Rate	% of MPPC Specific to Total Tax	Current Excise in ECU	57% Excise in ECU
Austria	55	20	-	57	64
Finland	55	22	7	79	86
Norway	52	22	74	128	166
Sweden	50	25	71	76	116
Switzerland	43	7	86	41	96
Czech Republic	41	23	69	14	31
Hungary	42	25	47	12	28
Poland	44	22	71	4	8
Turkey	35	15	3	8	19

- The Plan assumes that Austria and Finland will reach the 57% required by 1996. Sweden and Norway have already applied for derogations and therefore only tax increases in line with inflation are assumed. For the other markets, we will work at the local level to keep tax increases reasonable, and to try to keep, or change to more favourable, tax structures, as detailed in the Regional Corporate Affairs Plan.

- Regional **productivity and synergy savings** totalled $44.4 million in RF 1993, and the target for OB 1994 is $46.7 million, split as follows:

	RF 1993	OB 1994
USA / Brazil programmes	28.1	26.9
EEMA Programmes	16.2	19.8
	$44.3 mio	$46.7 mio

- USA / Brazil relates to the allocation EEMA receives for products and supplies sourced from the US and Brazil.

- EEMA programmes include on-going programmes already in place, such as:

  - centralised purchasing of non-tobacco materials
  - improved tobacco usage
  - headcount reductions

  and new projects for 1994:

  - close field office in Helsinki and merge offices in Senegal
  - reduce board weight of box products from 220 grams to 200 grams
  - switch from display cartons to bundle paper, wherever possible
  - introduce the operations support concept at new factories to minimise use of expatriates
  - consolidate customer services and logistics between FTR and Lausanne HQ
  - out-source processes and services at Lausanne HQ

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- It is not possible to quantify in detail productivity and synergy savings for 1995 and 1996. Therefore the Plan includes global savings of $40 million in 1995 and $50 million in 1996, which have not been allocated to individual markets. These savings represent approximately 2% of projected expenses in each year, excluding excise taxes.

- Our plans to achieve a sustainable competitive advantage via **superior distribution** will focus on Turkey, the Czech Republic, Slovakia, Poland, Hungary, Eastern Europe, Lithuania and Egypt, and are detailed in the individual market plans.

- A major obstacle in all of the above markets is the lack of distribution expertise and human resources, which threatens to slow our progress. We are therefore in the process of creating a multi-disciplinary task-force, to be operational by the first quarter of 1994, to provide expertise in the fields of:

  - distribution
  - sales force management and training
  - planning and logistics
  - sales information systems

  and which will be supplemented by external consultants whenever necessary to ensure that our key priorities are addressed in a timely manner.

- Developing effective programmes for all **human resource related issues**, and particularly training, will be key to achieving our Plan objectives.

- The rapid expansion of our local manufacturing facilities, and the planned acquisition of ZPT Krakow in 1994, will result in total Regional headcount of almost 14,000 in 1994, compared with only 2,000 in 1991.

- The projected acquisition of the Kharkov factory in 1995, and further expansion of field personnel in our priority growth markets, partly offset by reduced factory headcount in Central Europe due to productivity improvements, will result in total Regional headcount of 14,200 by 1996.

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YEAR	PROJECTS	CIGARETTE FACTORIES	PM EMPLOYEES CUM. TOTAL
1991	-	1	2,000
1992	Egri	1	
	Tabak	4	
	Samara	1	5,000
	Philsa	1	
1993	Lithuania	2	
	St. Petersburg (Make/Pack)	1	
	Krasnodar	1	
	Almaty	1	
		13	9,000
1994	Krakow	4	14,000
1995/96	Kharkov	1	
		18	14,200

- The major human resource issues arising from the rapid expansion of the Region are:
  - the lack of experience and skills of local employees
  - the medium term need for support from expatriates and Regional HQ
  - the need to train local managers to replace expatriates
  - avoiding trained local managers being poached by other international companies
  - the lack of compensation benchmarks.
- The Personnel Department at Regional HQ has recently been reorganised to enable better focus on the key human resource issues. The total number of trainees in the Region will increase from 51 in 1993 to 78 in 1994, with continued emphasis on Central and Eastern Europe.
- Integration of personnel in the newly acquired factories is a priority, and a qualified training support organisation will be established in each location. Networking across PMI will also be improved to gain quick access to know-how.

- Existing Human Resource management tools will be maintained and improved where necessary, and new tools introduced, in order to ensure professional support to management in such areas as job profiling, managing by objectives, goal setting, training, selection and organisation.

- The **volatility of the Region** is not restricted to Central and Eastern Europe, but is increasingly widespread, as reflected in the problems which have arisen in 1993:

  - currency devaluation and a dramatic tax-driven decline in industry volumes in Finland and Sweden.
  - interruption of exports to Turkey due to payment problems with Tekel
  - cessation of exports to Poland
  - tighter import regulations in Romania and Bulgaria
  - price war in the GCC
  - 3 month interruption of exports to Levant

  as well as by the comparison of 1995 volume and IFO in this year's Plan compared with the 1993 -1995 Plan.

	UNIT VOLUME (BIO)	
Eastern Europe	9.3	Krasnodar, Almaty acquisitions
Baltics	6.1	Lithuania Acquisition
Egypt Domestic	(3.2)	Joint brand with Eastern
Levant	(2.0)	Cyprus Duty Free
Nordic	(1.2)	Lower total markets
Other Markets	2.2	
Total favourable unit volume	11.2	

	IFO ($ MIO)	
Poland	(46.8)	Lower ZPT Profitability, no PM exports
GCC	(36.6)	Price war
Eastern Europe	(26.3)	More local production, lower exports
Nordic	(24.3)	Lower total markets, volume mix
Czech / Slovakia	(15.3)	Currency devaluation, volume mix
Other markets/Regional items	(19.5)	
Total unfavourable IFO	(168.8)	

- Our 1996 Plan total volume of 228 billion units will represent an industry share of approximately 22%. The acquisition of ZPT Krakow will be key to achieving this volume. There is an upside on volume in that the Plan does not include business development projects currently under study in markets with large volume potential, such as Egypt, Iran, Syria and Morocco, or potential privatisations/acquisitions in countries such as Romania, Bulgaria, Croatia, Belarus and Tanzania. It also assumes no change in our current situation in the large and lucrative South African market.

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- The volume mix, however, is a potential downside to the Plan IFO objectives, given continued pressure on disposable incomes, down-trading, increasing contraband, and our competitors' concentration on cheap brands to gain volume. This in turn would put pressure on our ex-factory pricing, resulting in negative price variances. Already in the Czech Republic and Slovakia, we have had to revise downwards our Plan price and volume assumptions, in the light of increasing contraband and down-trading.

- In addition to successfully completing the ZPT Krakow acquisition, other key risk areas in achieving the Plan objectives are the ability to increase exports to Russia and the other Eastern European countries, and the implementation of a high minimum specific duty in Saudi Arabia, Kuwait and the UAE.

- The EEMA Region represents tremendous potential for volume and IFO growth. Considerable progress has already been made since 1990 to realise this potential, and the 1994 - 1996 Plan will continue this profitable growth.

	Actual 1990	LE 1993	CAG (%) 1990 - LE1993	1996	CAG (%) LE 1993 - 1996
Unit Volume (Bio)	65.8	114.7	20.3	228.0	25.7
IFO ($ Mio)	340.8	566.5	18.5	937.0	18.3

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REGIONAL INCOME STATEMENT
($ MILLIONS)

	LE 1993	OB 1994	1995	1996	C.A.G. % LE 93 - 96
UNIT VOLUME (BILLIONS)	114.7	169.3	206.7	228.1	25.7%
Net Sales	2,481.2	2,629.1	2,848.0	3,174.2	8.6
Royalties & Other	72.9	81.8	92.3	107.0	13.6
TOTAL OPERATING REVENUES	2,554.1	2,710.9	2,940.3	3,281.2	8.7%
Standard Variable Cost	702.2	708.4	735.9	836.5	(6.0)
Cost Deviations	(8.4)	(10.2)	1.2	(0.7)	56.6
Foreign Excise Tax	723.7	792.8	875.7	962.6	(10.0)
Shipping Expense	14.8	24.1	27.2	31.4	(28.5)
LIFO Adjustment	19.0	20.5	23.3	26.7	(12.0)
MARGINAL CONTRIBUTION	1,102.8	1,175.4	1,227.0	1,424.9	8.9%
Fixed Manufacturing Expense	182.4	156.9	173.2	184.6	(0.4)
AVAILABLE PROFIT	920.5	1,018.5	1,103.8	1,240.2	10.5%
Direct Marketing	126.3	127.7	127.8	137.0	(2.8)
Indirect Marketing	122.4	121.7	128.6	136.2	(3.6)
General & Administrative	77.0	84.0	83.5	86.6	(4.0)
Other (Income)/Expenses	28.3	15.1	(37.1)	(56.6)	N/A
INCOME FROM OPERATIONS	566.5	670.0	801.0	937.0	18.3%
Goodwill Amortization	5.3	5.3	5.3	5.3	0.0
Minority Interest on Net Income	6.5	6.9	8.6	10.0	(15.1)
Bank Charges	1.8	1.9	1.5	1.6	4.1
Interest (Income)/Expenses	0.7	0.2	-	-	100.0
Pre-Tax Income	552.1	655.7	785.6	920.1	18.6%
Income Taxes	194.8	242.2	281.1	327.1	(18.9)
FSC Tax Credit	(15.1)	(15.1)	(15.1)	(15.1)	0.0
NET INCOME	372.4	428.5	519.5	608.1	17.8%

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EEMA REGION
VOLUME AND INCOME SUMMARY

	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
UNIT VOLUME (BILLION)					
EFTA, Baltics, Duty Free	19.2	23.6	23.5	24.0	7.7
Central Europe	34.1	58.2	78.1	81.9	33.9
Eastern Europe	13.1	32.2	44.9	55.5	61.8
Turkey	13.8	15.2	16.7	18.8	10.9
Middle East, Levant, North Africa	25.2	29.8	32.2	35.9	12.4
Sub-Saharan Africa	9.3	10.4	11.2	11.9	8.6
Total Region	114.7	169.4	206.6	228.0	25.7
INCOME FROM OPERATIONS ($ MILLION)					
EFTA, Baltics, Duty Free	144.8	159.2	167.4	179.3	7.4
Central Europe	107.2	167.2	211.8	250.1	32.6
Eastern Europe	31.1	55.0	66.0	80.0	37.0
Turkey	102.7	106.6	125.3	142.5	11.5
Middle East, Levant, North Africa	189.7	219.2	245.2	288.4	15.0
Sub-Saharan Africa	32.9	37.4	47.0	52.7	17.0
Total Areas	608.4	744.6	862.5	993.0	17.7
Unallocated Expenses	(41.9)	(74.6)	(101.5)	(106.0)	(36.3)
PIP / Synergies	-	-	40.0	50.0	-
Total Region	566.5	670.0	801.0	937.0	18.3

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1996 IFO
FAVOURABLE / (UNFAVOURABLE) VARIANCE VS. LE 1993

$ MILLION	1996 IFO	TOTAL VARIANCE vs. LE93	VARIANCE DUE TO: CURRENCY	VOL/MIX	PRICE	COST/INFL	DME/IME	OTHER
EFTA/BALTICS/DUTY FREE	179.3	34.5	(4.6)	9.1	38.6	(12.8)	1.7	2.5 Lithuania
Czech Republic	81.1	28.2	-	27.5	0.8	(5.6)	5.5	-
Slovak Republic	11.9	6.5	-	4.9	2.6	(1.2)	0.2	-
Poland	56.9	54.7	0.1	8.2	-	(7.9)	-	54.3 Krakow
Hungary	13.9	11.0	-	13.1	2.3	(1.2)	(3.2)	-
C. Europe South	51.2	24.0	(1.2)	33.2	3.2	(11.0)	(0.2)	-
Bulgaria/Romania	35.1	18.5	1.4	17.2	9.3	(5.9)	(3.5)	-
TOTAL CENTRAL EUROPE	250.1	142.9	0.3	104.1	18.2	(32.8)	(1.2)	54.3
EASTERN EUROPE	80.0	48.9	0.3	68.2	16.6	(18.4)	(17.8)	-
Turkey Domestic	98.4	34.9	0.2	12.4	17.8	(6.5)	(11.7)	22.7 Distribution
Turkey Duty Free / Cyprus	44.1	4.9	-	1.0	5.6	(1.7)	-	-
TOTAL TURKEY	142.5	39.8	0.2	13.4	23.4	(8.2)	(11.7)	22.7
GCC	170.2	38.1	0.2	32.7	18.9	(11.4)	(2.3)	-
Iran / Gulf Duty Free	18.3	15.0	-	6.4	11.0	(2.3)	(0.1)	-
Other Middle East	1.3	0.8	-	0.7	0.1	-	-	-
Levant	43.7	19.7	-	5.8	17.4	(4.7)	1.2	-
North Africa	54.9	25.1	0.3	18.5	10.6	(4.7)	0.4	-
TOTAL M. EAST/LEVANT/N. AFRICA	288.4	98.7	0.5	64.1	58.0	(23.1)	(0.8)	-
SUB SAHARAN AFRICA	52.7	19.8	(5.0)	13.1	19.8	(7.5)	(0.6)	-
TOTAL AREA	993.0	384.6	(8.3)	272.0	174.6	(102.8)	(30.4)	79.5
UNALLOCATED EXPENSES	(106.0)	(64.1)	1.8	-	(4.5)	5.6	1.6	(68.6) Reg. Adj.
PIP	50.0	50.0	-	-	-	50.0	-	-
TOTAL REGION	937.0	370.5	(6.5)	272.0	170.1	(47.2)	(28.8)	10.9

UNALLOCATED EXPENSES
(US$ MILLIONS)

	LE 1993	OB 1994	1995	1996
Regional DME	11.5	12.4	12.2	12.2
HQ Marketing	6.6	7.9	8.5	8.5
HQ G+A	46.5	49.8	53.3	55.2
Unallocated FME / G+A	14.1	10.8	14.2	10.1
Eastern Europe Equipment	0.3	(11.1)	-	-
Equity Adjustments	(7.1)	5.5	11.3	19.5
Philsa FME / G+A	21.7	11.3	-	-
Accrual Changes	(1.9)	(0.9)	(1.6)	(1.2)
EEMA POSM Adjustment	(7.8)	-	-	-
Tabak 13th Month	(3.1)	-	-	-
Reversal of 1993 Distribution Provision	-	(7.5)	-	-
PIP	-	(2.8)	-	-
Brazil Inventory & Cash / Accrual	(40.9)	-	-	-
Other	2.0	(0.8)	3.6	1.7
Total	41.9	74.6	101.5	106.0

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UNIT VOLUME BY BRAND

BILLION CIGARETTES	LE 1993	OB 1994	1995	1996	Increase/(Decrease) 1996 vs. LE93
Marlboro Red	49.4	56.9	61.6	66.4	17.0
Marlboro Medium	-	0.2	0.4	0.4	0.4
Marlboro Lights	8.6	11.0	13.0	15.0	6.4
Marlboro Ultra	-	-	-	0.1	0.1
Marlboro Menthol	0.3	0.3	0.3	0.5	0.2
TOTAL MARLBORO	58.3	68.4	75.3	82.4	24.1
L&M	10.7	14.1	16.6	18.9	8.2
Bond Street / Bond	8.6	13.6	15.7	18.1	9.5
Chesterfield	3.9	3.9	4.1	4.2	0.3
Parliament	2.5	2.6	2.7	2.9	0.4
Merit	1.3	1.1	1.2	1.3	-
Philip Morris	1.0	1.2	1.3	1.4	0.4
Multifilter	1.6	1.9	1.8	1.9	0.3
Congress	1.4	2.0	2.8	3.5	2.1
Muratti	1.5	1.5	1.5	2.1	0.6
Belmont	1.1	1.0	1.0	0.9	(0.2)
Lark	0.1	0.1	0.6	1.4	1.3
California	0.1	0.6	0.9	1.3	1.2
Apollo-Soyuz	1.3	0.5	0.3	0.5	(0.8)
Tabak Brands	15.5	15.6	14.6	14.6	(0.9)
Krakow Brands	-	16.6	32.6	31.4	31.4
Egri Brands	2.0	3.4	4.3	5.8	3.8
Lithuania Brands	2.2	5.6	5.3	4.9	2.7
Eastern Europe Brands	-	13.8	21.9	28.3	28.3
Others	1.6	1.8	2.1	2.2	0.6
TOTAL REGION	114.7	169.3	206.6	228.0	113.3

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SVC'S OF SELECTED MAJOR BRANDS

						ANNUAL % CHANGE		
			OB 1994	1995	1996	OB 1994	1995	1996
PMI	Marlboro Red KS Box Standard Export	USD	7.73	8.02	8.31	2.25	3.75	3.62
	Marlboro Red KS Box Saudi Arabia	USD	8.19	8.49	8.79	2.25	3.67	3.54
BRAZIL	Bond St. Soft Levant	USD	5.28	5.47	5.66	(7.04)	3.60	3.47
	Bond St. Soft Russia	USD	4.87	5.05	5.22	(6.70)	3.70	3.37
	Congress Guinea	USD	6.07	6.29	6.51	(6.18)	3.62	3.50
	L&M Box Levant	USD	6.03	6.25	6.47	(8.22)	3.65	3.52
FTR	Marlboro Red Box Switzerland	CHF	12.11	12.32	12.59	(1.22)	1.75	2.21
	Marlboro Lights Switzerland	CHF	12.25	12.44	12.71	(0.89)	1.57	2.18
	Visa Saudi Arabia	CHF	10.34	10.49	10.65	(3.09)	1.42	1.58
EGRI	Average Marlboro Hungary	HUF	1,355	1,512	1,736	14.93	11.59	14.78
	Average Multifilter Hungary	HUF	923	986	1,106	15.38	6.77	12.18
	Average Helikon Hungary	HUF	658	678	761	16.46	2.99	12.22
TABAK	Average Marlboro Czech Republic	CSK	328	317	347	(3.86)	(3.41)	9.50
	Average Tabak Brand Czech Republic	CSK	158	165	184	(1.86)	4.36	11.65
PHILSA	Average Marlboro Turkey	USD	18.13	18.66	19.20	(2.26)	2.92	2.89

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AVERAGE EXCHANGE RATES VS. US DOLLAR

	LE 1993	SPOT DEC 10	OB 1994	1995	1996
Swiss Franc	1.47	1.46	1.51	1.51	1.51
Finnish Mark	5.46	5.71	5.79	5.79	5.79
Swedish Krona	7.54	8.30	7.98	7.98	7.98
French Franc	5.54	5.83	5.93	5.93	5.93
German Mark	1.62	1.70	1.68	1.68	1.68
Austrian Schilling	11.43	11.98	11.80	11.80	11.80
Czech Crown	29.50	29.68	31.43	33.00	35.00
Slovak Crown	36.75	33.00	41.90	46.00	50.00
Hungarian Forint	92.83	100.10	107.31	135.00	150.00
Polish Zloty	17,500	20,800	23,650	29,280	33,464
Turkish Lira	10,820	14,200	17,269	27,566	43,614
Saudi Arabian Riyal	3.75	3.75	3.75	3.75	3.75
Egyptian Pound	3.45	3.35	3.49	3.70	3.90

REGIONAL HEADCOUNT SUMMARY

	RF 1993	OB 1994	1995	1996	Increase/(Decrease) RF93 - 1996
MANUFACTURING CENTRES					
FTR	938	951	949	949	11
Lithuania	602	602	577	577	(25)
Tabak(*)	2,282	2,179	1,870	1,783	(499)
Egri	734	746	746	826	92
Krakow	33	3,961	3,800	3,750	3,717
St. Petersburg / Samara	3	67	67	67	64
Krasnodar	-	977	977	977	977
Almaty	1	1,780	1,730	1,680	1,679
Kharkov	-	-	340	340	340
Philsa(*)	484	1,143	1,168	1,207	723
	5,077	12,406	12,224	12,156	7,079
FIELD					
EFTA, Baltics, Duty Free	310	310	308	308	(2)
Central Europe	321	431	509	550	229
Eastern Europe	48	123	279	449	401
Turkey	204	207	213	225	21
Middle East, Levant, North Africa	63	66	66	66	3
Sub-Saharan Africa	53	49	49	49	(4)
	999	1,186	1,424	1,647	648
HQ / EPM	306	319	325	325	19
TRAINEES	51	78	78	78	27
TOTAL REGION	6,433	13,989	14,051	14,206	7,773

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(*) Includes distribution headcount

REGIONAL HEADQUARTERS STAFF CENSUS

	RF 1993	OB 1994	1995	1996	INCREASE RF94 - 1996
Executive	8	8	8	8	-
Finance	56	59	63	63	7
Administration	19	19	19	19	-
ICS	26	26	26	26	-
Customer Services	15	15	15	15	-
Planning	12	12	12	12	-
Personnel	23	25	25	25	2
Marketing	44	50	50	50	6
Operations	49	51	51	51	2
EPM Neuchatel	33	33	35	35	2
Legal	7	7	7	7	-
Corporate Affairs	14	14	14	14	-
Total Regional Headquarters Staff	306	319	325	325	19
Total Regional Headcount	6,433	13,989	14,051	14,206	7,773

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EEMA REGION
COMPARISON WITH LAST YEAR'S PLAN

1994 - 1996 PLAN vs. 1993 - 1995 PLAN	FAVOURABLE / (UNFAVOURABLE) VARIANCE				
	LE 1993 vs. OB 1993	OB 1994 vs. 1994	1995 vs. 1995		
				E. EUROPE - LOCAL	19.1
				E. EUROPE - EXPORTS	(9.8)
				BALTICS	6.1
				EGYPT DOMESTIC	(3.2)
				LEVANT	(2.0)
UNIT VOLUME (BILLION)	(15.9)	(10.7)	11.2	NORDIC	(1.2)
				POLAND	1.4
				BULGARIA	1.6
				OTHER C. EUROPE	(2.0)
				GCC	(0.8)
				OTHER MARKETS	2.0
				POLAND	(46.8)
				GCC	(36.6)
				EASTERN EUROPE	(26.3)
				NORDIC	(24.3)
				CZECH / SLOVAKIA	(15.3)
INCOME FROM OPERATIONS ($ MIO)	(88.5)	(147.1)	(168.8)	LEVANT	(14.7)
				HUNGARY	(9.7)
				C. EUROPE SOUTH	9.6
				TURKEY	(8.6)
				SWITZERLAND	(7.6)
				OTHER MARKETS	(12.8)
				UNALLOCATED EXP.	14.0
				PIP	40.0
				PMI ADJUSTMENTS	(29.7)

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EFTA/Baltics/
Duty Free

EFTA, BALTICS, DUTY FREE
VOLUME AND INCOME SUMMARY

	UNIT VOLUME (BIO)					I.F.O. ($ MIO)				
	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
Switzerland	7.4	7.3	7.3	7.4	-	84.8	88.6	91.6	95.7	4.1
Austria	2.5	2.8	3.1	3.3	9.0	9.8	12.4	13.4	14.2	12.9
Finland	3.9	4.0	3.7	3.7	(1.9)	26.5	26.8	26.2	26.9	0.5
Sweden	1.3	1.4	1.4	1.5	5.5	5.6	7.8	9.2	11.9	28.5
Norway	0.4	0.5	0.5	0.5	2.1	2.0	1.9	2.5	2.8	12.3
Denmark	0.1	0.1	0.1	0.1	18.6	(0.9)	(0.4)	(0.1)	0.2	-
Total Nordic	5.7	6.0	5.7	5.8	0.5	33.2	36.1	37.8	41.8	8.0
Baltics	2.2	6.2	6.1	6.1	39.5	(1.2)	0.8	1.1	1.6	-
Duty Free	1.3	1.3	1.3	1.4	2.4	18.2	21.2	23.5	26.0	12.6
Total Area	19.2	23.6	23.5	24.0	7.7	144.8	159.2	167.4	179.3	7.4

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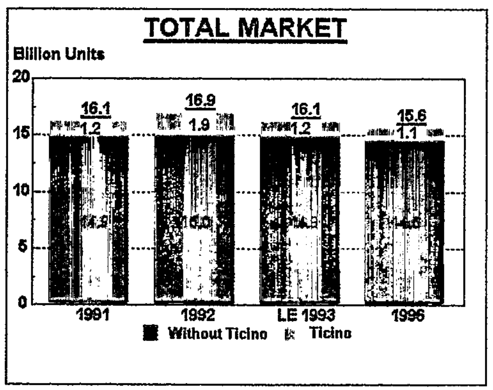
SWITZERLAND

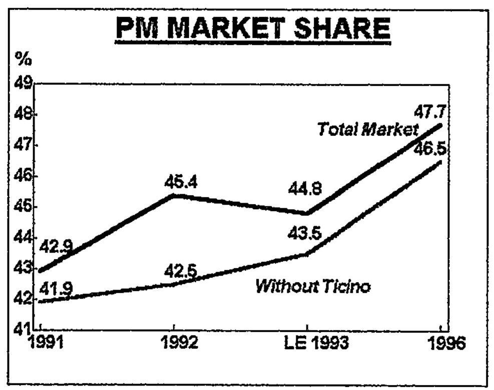
KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	16.1	15.6	(1.1)
PM Unit Volume (Bio)	7.4	7.4	-
PM Market Share (%)	44.8	47.7	2.9 pts
IFO ($ Mio)	84.8	95.7	4.1

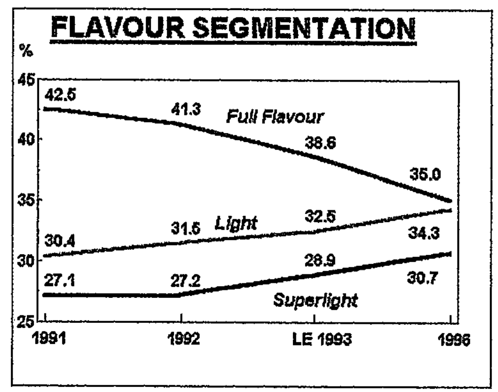
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	4.0	4.2	1.7	23.9	26.9	3.0
Muratti	1.4	1.3	(1.2)	8.3	8.5	(0.2)
Philip Morris	0.8	1.0	8.4	4.7	6.3	1.6
Chesterfield	0.1	0.2	26.0	0.5	1.0	0.5
Brunette	0.8	0.6	(7.9)	5.0	3.9	(1.1)
Others	0.3	0.1	(27.2)	2.4	1.1	(1.3)

MARKET SITUATION

- Following high Ticino sales in 1992, 1993 total market will return to its 1991 level of 16.1 billion, and decline by 1% per annum over the Plan Period, due to annual retail price increases ahead of inflation.
- PM's total market share, which excluding Ticino accelerated in 1993, will continue to increase at 1% due mainly to Marlboro Lights, the launch of Marlboro Medium, and the continued growth of the Philip Morris and Chesterfield families.
- The full flavour segment will continue to decline to the benefit of the light and super light segments.







KEY ISSUES AND ACTION PLANS

Taxation and Pricing

- The relatively low tax incidence on cigarettes vs. EC markets (50% vs. 72%), and the government's need for additional revenues to finance the budget deficit increase the likelihood of excise tax increases.

- VAT will be introduced in January 1995.

- Despite the dismantling of the cartel at the end of 1992, the Price Surveillance Office (PSO) can still intervene in pricing decisions if it considers that there is abuse of a dominant position.

- The dismantling of the cartel increases the possibility of competitors or the trade using price to gain market share, e.g., introduction of 25's packs, reduction in Winston price, more trade brands.

- The Plan objectives are to:

  - Limit annual excise tax increases to 16 centimes per pack, and annual retail price increases to 20 centimes per pack (twice the inflation rate), resulting in an increase in Marlboro's tax incidence to 55% by 1996.
  - Split the remaining 4 centimes per pack (USD 1.32 per 000) 60:40 between PM and the trade to cover cost increases (1994 and 1995 split of 40:60 is a retroactive adjustment agreed with the trade in 1992).
  - Convince the authorities to maintain the predominantly specific excise tax structure, and introduce the 90% of MPPC minimum excise tax allowed by EC law.
  - Avoid intervention by the PSO by demonstrating that PM is not abusing its position as market leader.
  - Be prepared for competitors' or trade price initiatives by having L&M and Flint ready to launch as price fighters and repositioning Chesterfield, if necessary.
  - Enhance trade relationships to maintain profitable volume growth in an increasingly competitive environment.

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__Trade Relations and PM Organisation__

- The dismantling of the cartel allowed PM to introduce performance-related allowances in 1993, negotiated individually with each trade partner.
- The result was continued full distribution of our main brands, improved presence of strategic low volume brands in vending machines and additional permanent advertising in food and kiosk chains.
- The trade marketing and key account functions were reinforced in 1993 to benefit from the post-cartel environment.
- Our Plan objectives are to:
  - Continue to negotiate cost-effective trade allowances linked to performance.
  - Reinforce PM's presence and visibility at point-of-sale, including supplying branded racks for food chains.
  - Implement the findings of the TQM review currently being conducted by AT Kearney, which addresses customer service from both the factory and sales force aspects.

__Advertising and Workplace Smoking__

- The initiative to ban tobacco advertising was rejected in the national referendum held on November 28, 1993.
- As a result, anti-tobacco groups are likely to focus on implementing advertising restrictions at the cantonal and city levels, and introducing smoking restrictions.
- A new law on workplace smoking passed on October 1, 1993 stresses tolerance and accommodation.
- Our Plan objectives are to:
  - Ensure that the industry voluntary advertising code is respected by all manufacturers in order to pre-empt further attempts to introduce more restrictive legislation.
  - Participate in the Federal working group responsible for preparing the directives for implementing the new law on workplace smoking.

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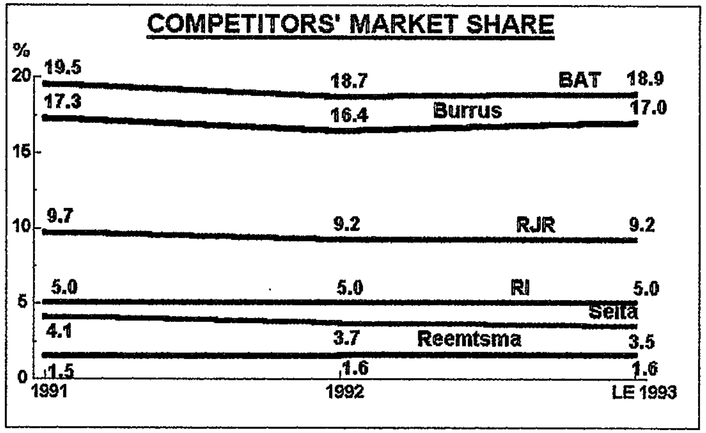
- Ensure that the directives favour accommodation rather than prohibition, and prepare documentation for personnel managers with appropriate examples of implementation in other companies.
- Continue to support the NMA courtesy campaign in order to preserve the social acceptability of smoking.

Competition

- After adjusting for the distorting impact of Ticino sales in 1992, BAT continues to lose share as the growth of its international brands does not compensate for the decline of its local brands.
- Burrus, however, after repositioning Select and Parisienne in 1992, is regaining share and will benefit as of 1994 from the licensed production of Seita and Reemtsma brands previously handled by Rinsoz & Ormond.
- RJR and Rothmans are both holding share, and could be tempted to disrupt the market by price initiatives.
- Adjusting for the 1992 Ticino impact, Marlboro, Parisienne, Barclay and Philip Morris are the only top 10 brand families showing true growth.

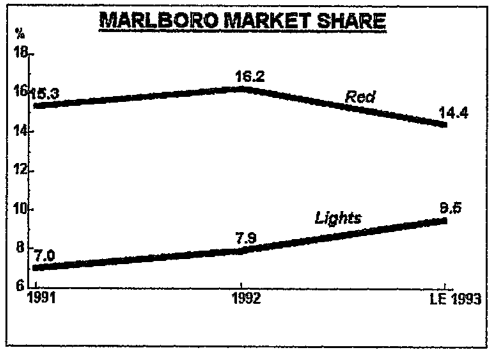


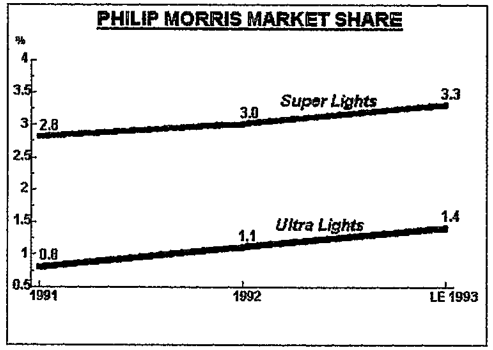
TOP 10 BRANDS MARKET SHARE

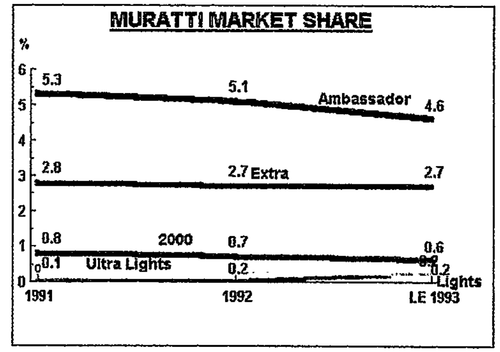
		1991	1992	LE 1993
Marlboro	PM	22.3	24.1	23.9
Parisienne	Burrus	8.3	8.1	8.5
Muratti	PM	9.0	8.7	8.3
Select	Burrus	8.0	7.5	7.7
Camel	RJR	7.6	7.3	7.2
Marylong	BAT	7.7	7.1	7.1
Barclay	BAT	5.3	5.2	5.7
Brunette	PM	5.3	4.8	5.0
Philip Morris	PM	3.6	4.1	4.7
Marocaine	BAT	3.3	3.0	3.0

Brand Strategies

- Marlboro Red is losing market share, although less rapidly than the decline of the full flavour segment.
- Marlboro Lights accelerated its growth in 1993 and has gained 1.6 share points.
- Muratti's declining trend has not been reversed as the new line extensions have not yet compensated for Muratti Ambassador's loss.
- Philip Morris continues to gain market share in a growing segment, with both Superlights and Ultralights.
- Chesterfield, our most recent entry, is gaining share due to Chesterfield Lights.







- For ***Marlboro***, we will:
  - Reduce the tar level of Marlboro Red from 14mg. to 13mg. in 1994 in line with market and consumer trends.
  - Launch Marlboro Medium in 1994 and Marlboro Ultra in 1996.
  - Use the new PMI print and cinema pool material.
  - Continue the successful music and racing promotional activities, and review to ensure continued impact.
  - Strengthen the brand's presence and visibility at point-of-sale, especially in food chains.

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- For *Muratti*, we will:
  - Re-establish Muratti Ambassador's image and resume promotional activities to stop the share decline.
  - Increase awareness of the 1mg. Muratti Ultralights to compete more successfully against low tar products such as Barclay No. 1.
- For *Philip Morris*, we will:
  - Increase the support given to Ultralights in advertising and promotional activities.
  - Continue to use the New York sky-line campaign and to exploit cinema promotional activities.
  - Line-extend the brand to complete the range, which today consists of 4mg. and 1mg.
- For *Chesterfield*, we will:
  - Reduce the tar level of the full flavour variant from 14mg. to 13mg.
  - Increase brand awareness and image with the "Not Your First" advertising campaign.
  - Continue promotional activities using dedicated promotional teams.
  - Purchase columns in vending machines to improve distribution.

UPSIDE / DOWNSIDE

	1994		1995		1996	
	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
Higher total market of 100 million units in Ticino due to favourable pricing vs. Italy	80	2.0	80	2.1	80	2.1
Lower total market of 150 million units due to retail price increases ahead of inflation	(69)	(1.7)	(70)	(1.9)	(72)	(1.9)
Tax increases equivalent to CHF 10/000 in 1995 and 1996 with Plan retail prices	-	-	-	(3.9)	-	(9.8)

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SWITZERLAND - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	7,421.8	7,270.0	7,350.0	7,430.0	0.04%					
Net Operating Revenues	247,969	244,291	251,940	261,117	1.74%	33.41	33.60	34.28	35.14	1.70%
Std Variable Cost	69,775	65,216	67,091	69,431	0.16%	9.40	8.97	9.13	9.34	0.20%
SVC Deviations	1,103	120	92	75	59.18%	0.15	0.02	0.01	0.01	59.20%
LIFO	7	7	6	6	5.01%	0.00	0.00	0.00	0.00	5.04%
Marginal Contribution	177,084	178,948	184,751	191,605	2.66%	23.86	24.61	25.14	25.79	2.62%
Direct Marketing	37,706	35,762	36,607	37,403	0.27%	5.08	4.92	4.98	5.03	0.31%
Office Expenses	28,309	29,336	30,716	32,164	(4.35)%	3.81	4.04	4.18	4.33	(4.31)%
Other Indirect Marketing	2,251	1,987	1,987	1,987	4.07%	0.30	0.27	0.27	0.27	4.11%
Controllable Margin	108,818	111,863	115,441	120,051	3.33%	14.66	15.39	15.71	16.16	3.29%
Alloc. Office Expenses	618	548	577	594	1.31%	0.08	0.08	0.08	0.08	1.35%
Fixed Manufacturing Exp.	16,093	15,315	15,423	15,557	1.12%	2.17	2.11	2.10	2.09	1.16%
General & Administrative	7,316	7,390	7,831	8,149	(3.66)%	0.99	1.02	1.07	1.10	(3.62)%
Income from Operations	84,791	88,610	91,610	95,751	4.14%	11.42	12.19	12.46	12.89	4.10%

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SWITZERLAND - UNIT VOLUME AND MARKET SHARES

	VOLUME (BIO)					MARKET SHARE (%) *				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	16.93	16.10	15.90	15.74	15.58					
Marlboro Red	2.66	2.40	2.24	2.17	2.09	16.2	14.4	14.1	13.8	13.4
Marlboro Lights	1.29	1.56	1.62	1.75	1.87	7.8	9.4	10.2	11.1	12..0
Marlboro Menthol	0.02	0.02	0.02	0.02	0.02	0.1	0.1	0.1	0.1	0.1
Marlboro Medium	-	-	0.08	0.14	0.20	-	-	0.5	0.9	1.3
Marlboro Ultra	-	-	-	-	0.01	-	-	-	-	0.1
TOTAL MARLBORO	3.97	3.98	3.96	4.08	4.19	24.1	23.9	24.9	25.9	26.9
Muratti	1.45	1.37	1.35	1.34	1.32	8.7	8.3	8.5	8.5	8.5
Brunette	0.81	0.78	0.71	0.66	0.61	4.8	5.0	4.5	4.2	3.9
Philip Morris	0.69	0.77	0.85	0.91	0.98	4.1	4.7	5.3	5.8	6.3
Merit	0.26	0.21	0.12	0.09	0.08	1.7	1.0	0.7	0.6	0.5
Chesterfield	0.06	0.08	0.10	0.13	0.16	0.4	0.5	0.6	0.8	1.0
Others	0.29	0.23	0.19	0.14	0.09	1.6	1.5	1.2	0.9	0.6
TOTAL PM	7.53	7.42	7.27	7.35	7.43	45.4	44.8	45.7	46.7	47.7

* Reflects in-market sales

SWITZERLAND - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	45.4	44.8	45.7	46.7	47.7
BAT	18.7	18.9	18.6	18.1	17.6
Burrus	16.4	17.0	21.6	21.2	20.7
Rinsoz & Ormond	5.3	5.1	-	-	-
RJR	9.2	9.2	9.1	9.1	9.1
Rothmans	5.0	5.0	5.0	4.9	4.9
Total Market	100.0	100.0	100.0	100.0	100.0

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SWITZERLAND - NEW BRAND PROFILES

MARLBORO MEDIUM

Launch Date: April, 1994

	OB 1994	1995	1996
Unit Volume (Millions)	79	142	202
Market Share (%)	0.5	0.9	1.3
Retail Price - Year End (CHF/Pack)	3.50	3.70	3.90
Net Ex-factory Price - Year Average ($/000)	27.97	35.04	35.79
Marginal Contribution - Year Average ($/000)	19.55	26.57	27.14

Rationale

Fill the gap between Marlboro Red and Marlboro Lights, and offer an alternative to the Marlboro Red smoker, wanting to move down from full flavour.

Direct Marketing included in brand family DME

MARLBORO ULTRA

Launch Date: November, 1996

	OB 1994	1995	1996
Unit Volume (Millions)			16
Market Share (%)			0.1
Retail Price - Year End (CHF/Pack)			3.90
Net Ex-factory Price - Year Average ($/000)			27.97
Marginal Contribution - Year Average ($/000)			17.65

Rationale

Complete the Marlboro franchise and respond to market trends.

Direct Marketing included in brand family DME

PHILIP MORRIS

Launch Date: October, 1995

	OB 1994	1995	1996
Unit Volume (Millions)		16	47
Market Share (%)		0.10	0.30
Retail Price - Year End (CHF/Pack)		3.70	3.90
Net Ex-factory Price - Year Average ($/000)		28.42	35.92
Marginal Contribution - Year Average ($/000)		15.84	23.05

Rationale

Complete the family offering (which today consists of 4mg., and 1mg.,) and respond to market trends.

Direct Marketing included in brand family DME

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SWITZERLAND - MARLBORO PRICE STRUCTURE

CHF PER 000 CIGARETTES	BASE PRICE (31/12/93)	INCREASES 1994	1995	1996	END PRICE (31/12/96)
MARLBORO RED BOX KS					
Manufacturer	51.44	0.80	0.80	1.20	54.24
Taxes	82.58	8.00	8.00	8.00	106.58
Trade	30.98	1.20	1.20	0.80	34.18
Total Price Increase		10.00	10.00	10.00	
Ending Retail Price					
- CHF per 000	165.00	175.00	185.00	195.00	
- CHF per Pack	3.30	3.50	3.70	3.90	
Date of Increase		March	March	March	
Marginal Contribution (Average)					
- $ per 000		26.26	26.65	27.22	
Exchange Rate (Average)		1.51	1.51	1.51	
Inflation (%)	3.00	2.80	2.70	2.50	

SWITZERLAND - COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	7.4	7.3	7.4	7.3	7.4	7.4	0.1	(0.1)	(0.1)
OPERATING REVENUES	248.0	244.3	251.9	277.1	288.1	296.5	(29.1)	(43.8)	(44.6)
MARGINAL CONTRIBUTION	177.1	178.9	184.7	197.3	206.2	212.2	(20.2)	(27.3)	(27.5)
FME	16.1	15.3	15.4	15.7	15.7	15.8	(0.4)	0.4	0.4
DIRECT MARKETING	37.7	35.8	36.6	44.0	46.7	48.9	6.3	10.9	12.3
INDIRECT MARKETING	31.2	31.8	33.3	37.0	38.8	40.7	5.8	7.0	7.4
G&A	7.3	7.4	7.8	7.5	7.6	7.6	0.2	0.2	(0.2)
TOTAL EXPENSES	76.2	75.0	77.7	88.5	93.1	97.2	12.3	18.1	19.5
INCOME FROM OPERATIONS	84.8	88.6	91.6	93.1	97.4	99.2	(8.3)	(8.8)	(7.6)

Last year's Plan assumed a CHF 1.32:$1 exchange rate compared with CHF 1.47 in LE 1993 and CHF 1.51 in 1994 and 1995 of this year's Plan

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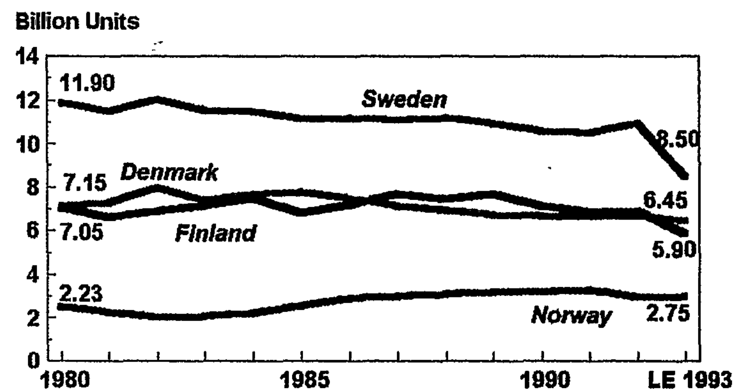
NORDIC AREA

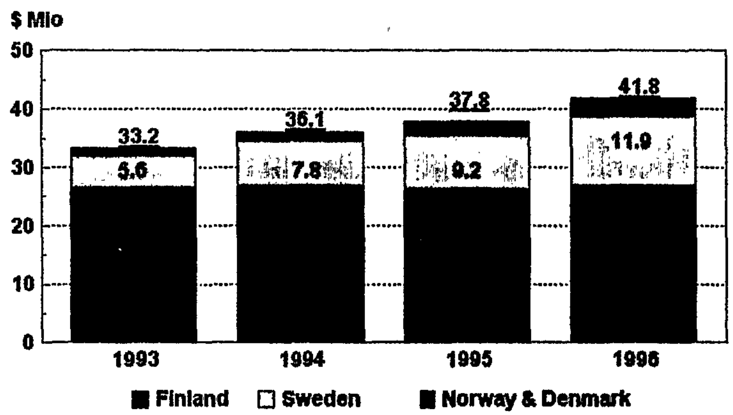
AREA OVERVIEW

- Denmark is already a member of the EC, and Finland, Sweden and Norway have applied for membership which could happen by 1996. Their membership will affect PM sourcing and tax strategies.
- While industry and trade margins are high in the Nordic markets, cigarette consumption is declining, reflecting aggressive tax increases and severe recession, notably in PM's key markets of Finland and Sweden.
- Lower industry volumes and currency devaluation have reduced the profit potential of these markets.
- We expect stable earnings in the distressed Finnish market, despite continued downtrading, and a doubling of income in Sweden, reflecting volume gains due to improved distribution and favourable pricing.
- Restructuring our business in Finland is a potential upside (see Finland Plan).
- Consolidation among local competitors is a potential threat.

TOTAL MARKET - NORDIC AREA



PM INCOME FROM OPERATIONS



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COMPETITION

MAJOR COMPETITORS - LE 1993 MARKET SHARES (%)	PAN-NORDIC	FINLAND	SWEDEN	NORWAY	DENMARK
STC (Denmark)	42.5	-	26.3	54.9	97.5
PM	23.6	65.7	13.8	15.6	1.4
STA (Sweden)	20.6	0.3	57.1	-	-
BAT	6.7	17.5	0.9	15.6	0.3
RJR	1.7	2.7	1.5	2.9	0.3
	95.1	86.2	99.6	89.0	99.5

BRAND SHARES - YTD SEPTEMBER 1993 (%)	PAN-NORDIC	FINLAND	SWEDEN	NORWAY	DENMARK
Prince (STC)	30.3	-	25.5	35.8*	54.3*
Marlboro	15.4	36.8	11.7	14.1	1.3
Blend (STA)	13.4	0.4	36.9	-	-
Look (STC)	6.6	-	0.9	-	22.8
Belmont	4.2	16.8	-	-	-
Right (STA)	3.2	-	8.8	-	-
North State (Rettig)	2.8	10.6	-	-	0.5*
L&M	2.9	11.6	-	0.1	-
Barclay	2.1	4.7	0.1	7.2*	-
Camel	1.2	2.2	1.2	1.3	0.3*
	82.1	83.1	85.1	58.5	79.2

* Estimated

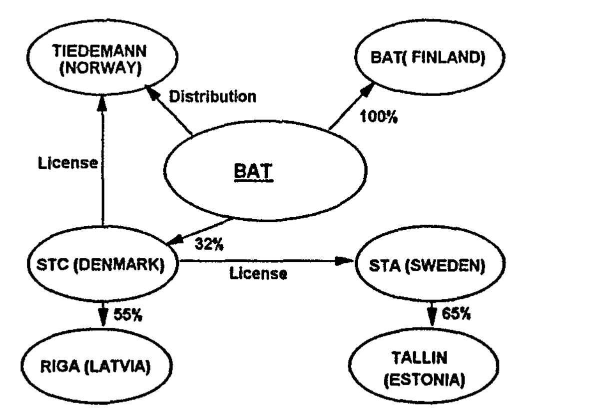
- PM is the leading international competitor in the Area, and gaining throughout. Marlboro is the sole international brand with material Pan-Nordic appeal, and second only to STC's local proposition, Prince.

- The Prince brand has strong regional appeal, and may have possibilities elsewhere. Prince, however, is owned by STC (Denmark) throughout the Nordic area.

- While STC's local majority owners do not currently want to sell their shares, BAT holds a blocking 32% equity stake in STC and a right of first refusal for the rest of STC's shares.

- Separately, the Swedish monopoly, STA, has been privatised. The current ownership by Volvo may not be stable.

BAT NORDIC AREA



- A possible STC/STA alliance would create a strong regional competitor. In turn, BAT could benefit from the STC/STA scale advantages in marketing and distribution. This lends urgency to our plans to assure neutral distribution in Sweden, where we currently use STA, and to rationalise distribution in Norway.

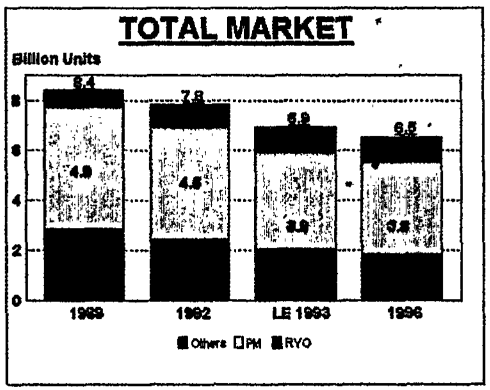
FINLAND

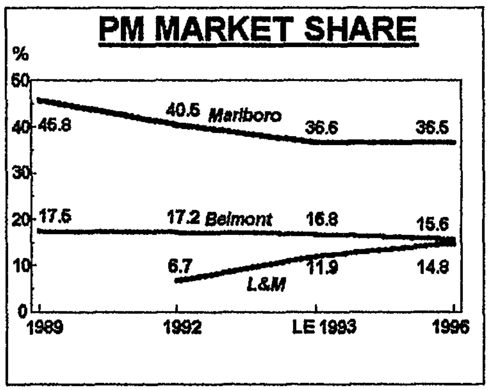
KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	5.9	5.5	(2.3)
PM Unit Volume (Bio)	3.9	3.7	(1.9)
PM Market Share (%)	65.7	67.5	1.8 pts
IFO ($ Mio)	26.5	26.9	0.5

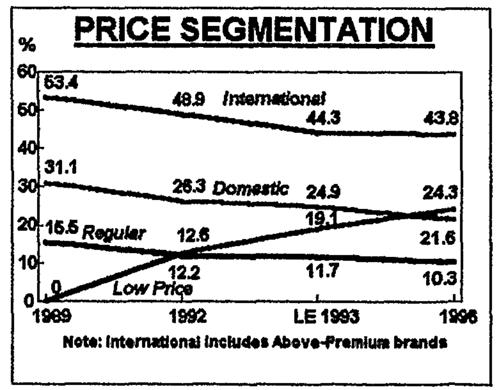
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	2.2	2.0	(2.4)	36.6	36.5	(0.1)
Belmont	1.0	0.9	(4.6)	16.8	15.6	(1.2)
L&M	0.7	0.8	5.0	11.9	14.8	2.9

MARKET SITUATION

- Despite a strong market position, PM's profitability is under pressure due to adverse shifts in the market, namely:
  - contracting industry volumes and growth of RYO due to tax-driven retail price increases and eroding consumer incomes
  - pressure on margins due to consumer down-trading, and
  - devaluation of the Finmark, due to the weakness of the economy.







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- No near-term improvement to consumer incomes is expected, therefore the outlook is for more down-trading which will benefit L&M, (RSP: FIM 16.80 or $2.90 / pack), but will hurt sales of Marlboro (RSP: FIM 18.00 or $3.20 / pack) and Belmont (RSP: FIM 17.80 or $3.07 per pack).

KEY ISSUES AND ACTION PLANS

Taxation and Pricing

- Tax incidence, at 74% of RSP is high and mainly ad valorem, with a small minimum specific component (FIM 50/000) introduced only recently.
- The ad valorem structure combined with high trade margins (12.8% of RSP) combines to yield a multiplier of 5.3, constraining manufacturers' pricing flexibility, and facilitating price initiatives.
- Minimum taxes on cigarettes are FIM 420/000, which implies an approximate minimum retail price of FIM 14.80 per pack, below which price cutting becomes uneconomic. The possibility of a competitive launch priced at around FIM 14.80, or 12% below L&M, currently the cheapest major brand on the market, remains a threat, reinforced by the fact that nearly one third of estimated industry manufacturing capacity is idle.
- The Plan assumes Finland will join the EC in 1995 - 1996, and that excise taxes will increase from 56% of the retail price now, to 57%, in line with EC directives.
- The Plan objectives are to:
  - Lobby the authorities for an increase in the minimum excise tax to 90% of the total tax on the MPPC.
  - Convince the authorities to increase the specific to total tax ratio, to safeguard state revenues and reduce the incentive for price cutting.
  - Lobby for tax equalisation versus RYO, which currently has a total tax incidence of 62%.
  - Reduce the price gap between Marlboro and the low price segment from 9.2% in 1993 to 8.1% in 1996, by keeping the absolute price differential at FIM 1.70 per pack ($0.29 per pack).

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Tobacco Law

- The Ministry of Health and Social Affairs has proposed additional strictures on trade marketing, diversifications and workplace smoking.

- The industry has had success in delaying this proposal and will continue to lobby to stop it.

Distribution and Trade Relations

- Trade margins, at 12.8% of the retail price, are high in Finland, reflecting in part an unusual degree of trade concentration (83% of cigarettes are sold through three integrated wholesale / retail groups).

- However, the severe Finnish recession has occasioned financial distress for at least part of the trade, with the result that we expect the trade will:

  - press for an increased share of future price increases, and
  - work to delist minor/non-performing brands in an effort to contain their costs.

- All direct communication with consumers is banned, and already limited trade marketing activities will likely be further curtailed by the authorities.

- The Plan objectives are to:

  - Modify / evolve our trade activities smoothly, in line with new legislation.
  - Continue to inform and educate the trade via calls, direct mail and conferences.
  - Emphasise shelf management to bring our facings better into line with our market share.

Sales Force Management

- There are few ways of marketing in Finland. Our licensee, ATO's sales force, which they have increased from 41 in 1991 to 66 now, is a key part of our marketing mix.

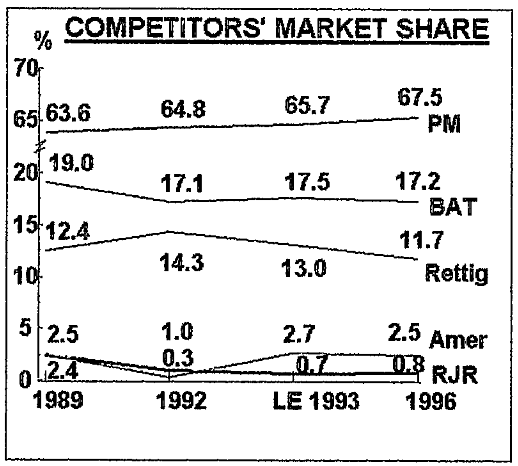
- The Plan objectives are to:
  - Increase calls on non-food accounts, especially HORECADI, to gain penetration.
  - Ensure proper sales force attention to PM brands, versus ATO products.
  - Improve the quality of calls via training.

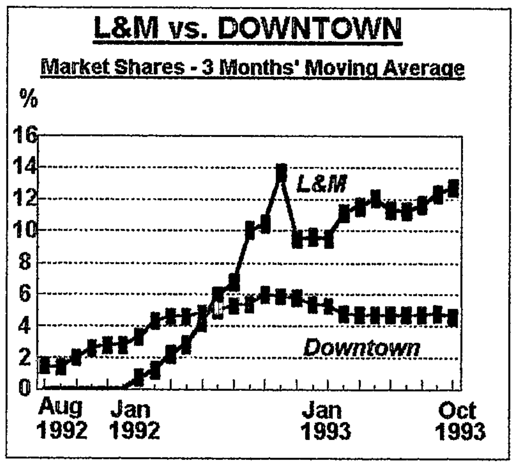
Competition

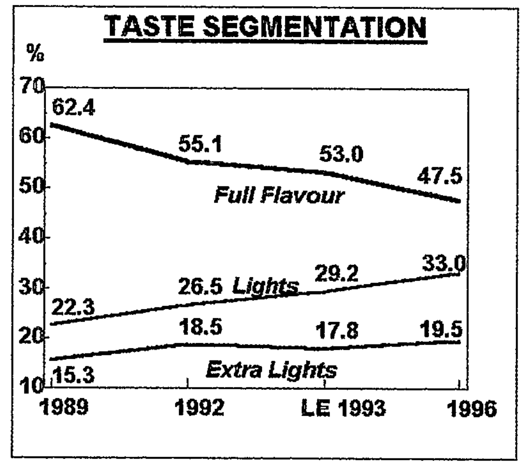
- The are three cigarette manufacturers in Finland: Amer Tobacco (our licensee), Rettig, and BAT. RJR brands are made under license by Rettig.

- Estimated industry manufacturing capacity is 12.5 billion units, with 29% of this not now utilised.

- BAT improved share in 1993 slightly, as sales of low-priced Pall Mall partly compensated declines by high-priced Barclay and local brand North State. However, 1992 earnings were only $3 million, with little likelihood of a gain in 1993. During 1993, BAT investigated but decided against shutting their factory. Recent initiatives include a RYO line extension of Pall Mall and the launch of Lucky Strike 10s, with immaterial results as yet. BAT's long term decline is forecast to continue through the Plan period.







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- Local competitor, Rettig boosted its share in 1992 on gains by its price proposition, "Downtown". In 1993, Rettig share declined as L&M consolidated and expanded its leadership of the low price segment. Rettig 1992 operating earnings from tobacco were $12 million, with more than half of this estimated to derive from sales in the buoyant RYO segment. A second price initiative by Rettig remains a threat.

Brand Strategies

- Due to eroding incomes, consumers are switching to lower-priced cigarettes, to smuggled cigarettes from Eastern Europe, and to tax-advantaged RYO.

- As a result, both Marlboro and Belmont are losing volume and share.

- The chief beneficiary has been L&M, launched in February 1992, which will account for nearly 12% of industry sales in 1993.

- Opportunities in the market are:

  - the 10s segment, where Marlboro Red and three L&M variants are already present;
  - the medium tar/nicotine segment;
  - potentially RYO, although margins are less than current L&M margins.

- A major threat is the possibility of further price cutting.

- For ***Marlboro***, we will:

  - End the decline in the Marlboro family, and maintain 36.5% share of market by introducing Marlboro Medium in August 1994, and Marlboro Ultra Lights in March 1995.
  - Launch Marlboro Medium on a Pan-Nordic basis, including Scandinavian Duty Free, and leverage the spillover of Pan-Nordic and duty free advertising.
  - Strengthen the distribution of Marlboro Box and Marlboro 100s.
  - Strengthen the Marlboro image by fully exploiting international sponsoring in motor racing and music, as well as the Marlboro Classic diversification.

- For ***Belmont***, we will:
  - Maintain the current good coverage and continue to promote the brand family as the number one light cigarette, and thus limit cannibalisation by L&M.
  - Launch Belmont 10s if the segment takes off.
- For ***L&M***, we will:
  - Launch L&M Mild (9 mg) in January 1994, and capitalise on the growth in the low price / lights segment.
  - Increase distribution, visibility and facings for the L&M family, gaining 2.9 share points to reach a 14.8% share of the market in 1996.
  - Prepare an L&M RYO launch and enter the segment if the current growth rate of RYO persists.
- In the event of another round of price cutting, and / or the introduction of trade brands, we are presently ready to respond with ***California***.

<u>Restructuring Possibilities</u>

- PM has conducted business in Finland since 1961, by means of license agreements with Amer Tobacco (ATO). Under the current license, which runs through December 2001, PM has three sources of earnings:
  - a royalty of 6.5% on PM brands, calculated on net ex-factory price;
  - profit on the sales of tobacco and flavours to ATO, and
  - a supplementary royalty ("profit sharing") of 48% of the gross profit on PM brands.
- Renegotiation of the license is possible as of January, 1996. Failing an agreement, termination of the license is possible in January 1997, at the earliest.

Action Plans

- By end-1993, to reduce fixed costs and improve our flexibility in Finland, the PM Helsinki office will be closed.

- For the future, in the light of the eroding profit potential of the market, and because Finland appears set to join the EC, we may wish to amend our way of doing business in Finland. Our guiding aim will be to assure business continuity in an important EEMA market.

- Options for restructuring include a switch to contract manufacture, acquisition of Amer, or a switch to imports. Since PM already has accounts for over 90% of Amer cigarette production, no synergies are assumed:

	1994 IFO Impact
Contract Manufacture	+ $5 million
Acquisition of Amer	
♦ PM Brands Only	+ $7 million
♦ PM Brands, RYO, Local Brands	+ $14 million
Switch to Imports	
♦ Ex FTR	+ $13 million
♦ Ex Munich	-$6 Million*
* Includes import duty of $4.15/000	

- Separately,, a Rettig/Amer/PM merger is legally feasible up to the time when Finland joins the EC. Such a combination would create a strong local company with nearly 80% share of cigarettes, and virtually all of the growing RYO segment. Rettig earned $12 million from tobacco in 1992.

UPSIDE / DOWNSIDE

Restructuring our business in Finland could increase IFO by as much as $14 million annually.

If the total cigarette market declines more than we anticipate to 5.3 billion units in 1995, and to 5.0 billion units in 1995, PM IFO would be unfavourably affected by $1.4 million in 1995 and $2.5 million in 1996, assuming unchanged volume mix and unchanged market shares.

In the event of a price war in 1994, forcing us to keep our prices unchanged in 1995 and 1996, IFO would decline by $1.5 million in 1995 and $2.8 million in 1996. This does not take into consideration the launch of California, but assumes unchanged volume mix and constant 1994 price levels.

If the Finnish Mark depreciates against the US Dollar to 6.00 FIM/USD instead of 5.79 FIM/USD, the impact on PM IFO will be approximately $1.6 million each year.

FINLAND - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	3,936.0	3,965.0	3,754.0	3,713.0	(1.93)%					
Net Operating Revenues	49,678	49,393	48,245	49,096	(0.39)%	12.62	12.46	12.85	13.22	1.56%
Std Variable Cost	15,101	14,501	14,071	14,254	1.91%	3.84	3.66	3.75	3.84	(0.02)%
SVC Deviations	-	-	-	-		-	-	-	-	
LIFO	451	530	521	531	(5.59)%	0.11	0.13	0.14	0.14	(7.67)%
Marginal Contribution	34,126	34,362	33,653	34,311	0.18%	8.67	8.67	8.96	9.24	2.15%
Direct Marketing	2,483	2,144	1,883	1,883	8.81%	0.63	0.54	0.50	0.51	7.02%
Office Expenses	1,267	1,140	1,157	1,174	2.51%	0.32	0.29	0.31	0.32	0.60%
Other Indirect Marketing	1,035	988	1,282	1,282	(7.39)%	0.26	0.25	0.34	0.35	(9.50)%
Controllable Margin	29,341	30,090	29,331	29,972	0.71%	7.45	7.59	7.81	8.07	2.69%
Alloc. Office Expenses	1,580	1,919	1,878	1,851	(5.42)%	0.40	0.48	0.50	0.50	(7.49)%
Fixed Manufacturing Exp.	1,174	1,277	1,183	1,159	0.43%	0.30	0.32	0.32	0.31	(1.53)%
General & Administrative	87	87	84	83	1.56%	0.02	0.02	0.02	0.02	(0.38)%
Income from Operations	26,500	26,807	26,186	26,879	0.47%	6.73	6.76	6.98	7.24	2.45%

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FINLAND - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	6.89	5.90	6.00	5.60	5.50					
Marlboro Red	1.93	1.45	1.38	1.26	1.21	28.0	24.7	23.0	22.5	22.0
Marlboro Lights	0.48	0.40	0.36	0.32	0.30	6.9	6.7	6.1	5.7	5.5
Marlboro Menthol	0.22	0.18	0.18	0.16	0.14	3.3	3.0	2.9	2.8	2.6
Marlboro Lights Menthol	0.16	0.13	0.15	0.13	0.13	2.3	2.2	2.4	2.3	2.3
Marlboro Ultra and Medium	-	-	0.12	0.17	0.23	-	-	2.0	3.1	4.1
TOTAL MARLBORO	2.79	2.16	2.19	2.04	2.01	40.5	36.6	36.4	36.4	36.5
Belmont	1.19	0.99	0.96	0.88	0.86	17.2	16.8	16.1	15.8	15.6
L&M	0.46	0.70	0.78	0.80	0.81	6.7	11.9	13.0	14.2	14.8
Multifilter/PMS/Bond	0.02	0.02	0.04	0.03	0.03	0.4	0.4	0.6	0.6	0.6
TOTAL PM	4.46	3.87	3.97	3.75	3.71	64.8	65.7	66.1	67.0	67.5

FINLAND - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	64.8	65.7	66.1	67.0	67.5
BAT	17.1	17.5	17.5	17.3	17.2
Rettig	14.3	13.0	12.6	12.2	11.7
RJR	2.3	2.7	2.5	2.5	2.5
Amer	1.0	0.7	0.9	0.8	0.8
Others	0.5	0.4	0.4	0.2	0.3
Total Market	100.0	100.0	100.0	100.0	100.0

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FINLAND - NEW BRAND PROFILES

MARLBORO MEDIUM	OB 1994	1995	1996
Launch Date: August, 1994			
Unit Volume (Millions)	120	146	171
Market Share (%)	2.0	2.6	3.1
Retail Price - Year End (FIM/Pack)	18.90	19.90	20.90
Net Ex-factory Price - Year Average ($/000)	22.62	23.14	23.65
Marginal Contribution - Year Average ($/000)	9.40	9.67	9.89

Rationale

Revitalise the Marlboro family and prevent out-switching from Marlboro Red to other brand families.

Direct Marketing included in brand family DME

MARLBORO ULTRA LIGHTS	OB 1994	1995	1996
Launch Date: March, 1995			
Unit Volume (Millions)		28	55
Market Share (%)		0.5	1.0
Retail Price - Year End (FIM/Pack)		19.90	20.90
Net Ex-factory Price - Year Average ($/000)		23.14	23.65
Marginal Contribution - Year Average ($/000)		9.67	9.89

Rationale

Marlboro Ultra Lights will give the Marlboro brand family a presence in the superlight segment and thus rejuvenate the family.

Direct Marketing included in brand family DME

L&M MILD	OB 1994	1995	1996
Launch Date: February, 1994			
Unit Volume (Millions)	50	95	116
Market Share (%)	0.8	1.7	2.1
Retail Price - Year End (FIM/Pack)	19.80	20.28	20.75
Net Ex-factory Price - Year Average ($/000)	7.63	7.98	20.75
Marginal Contribution - Year Average ($/000)	7.63	7.98	8.25

Rationale

Capitalise further on the growth of the low price segment by entering the 8 - 9mg. taste segment, which is the only taste segment where L&M is not present.

Direct Marketing included in brand family DME

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FINLAND - MARLBORO PRICE STRUCTURE

FIM PER 000 CIGARETTES	BASE PRICE (31/12/93)	INCREASES 1994	INCREASES 1995	INCREASES 1996	END PRICE (31/12/96)
MARLBORO RED BOX					
Manufacturer	127.76	3.20	2.99	3.00	136.95
Taxes	679.30	13.61	44.02	44.01	780.94
Trade	117.94	3.19	2.99	2.99	127.11
Total Price Increase	-	20.00	50.00	50.00	-
Ending Retail Price					
- FIM per 000	925.00	945.00	995.00	1,045.00	1,045.00
- FIM per Pack	18.50	18.90	19.90	20.90	20.90
Date of Increase		April	January	January	
Marginal Contribution (Average)		9.40	9.67	9.89	
- $ per 000					
Exchange Rate (Average)		5.79	5.79	5.79	
Inflation (%)		3.00	3.00	3.00	

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FINLAND - COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	3.9	3.8	3.7	4.5	4.5	4.5	(0.6)	(0.8)	(0.8)
OPERATING REVENUES	49.7	49.4	48.2	63.9	65.5	68.2	(14.2)	(16.1)	(20.0)
MARGINAL CONTRIBUTION	34.1	34.4	33.6	43.9	46.2	48.6	(9.8)	(11.8)	(15.0)
FME	1.2	1.3	1.2	1.5	1.5	1.5	0.3	0.2	0.3
DIRECT MARKETING	2.5	2.2	1.9	3.3	4.2	4.5	0.8	2.0	2.6
INDIRECT MARKETING	3.8	4.0	4.3	6.2	5.7	5.9	2.4	1.7	1.7
G&A	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-
TOTAL EXPENSES	6.4	6.3	6.3	9.6	10.0	10.5	3.3	3.7	4.3
INCOME FROM OPERATIONS	26.5	26.8	26.2	32.8	34.7	36.6	(6.3)	(8.0)	(10.5)

The negative IFO variance is due to:

- devaluation of the Finnish Mark
- lower industry volumes
- adverse volume mix due to the growth of L&M at the expense of Marlboro and Belmont

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LITHUANIA

- In June 1993, PM acquired the Klaipeda cigarette factory and contracted through 1996 for all the output of the second factory in Lithuania at Kaunas. As a result, PM now controls 100% of local production.

- Inflation dropped from nearly 400% in 1992 to just over 100% in 1993, following the introduction of a new currency, the Litas, which has helped to insulate Lithuania from the Rouble economies. Nevertheless, the Baltic economies are expected to improve only slowly and consumer incomes will remain low, at around $100 per capita monthly, constraining the size of the international segment.

- At issue now is assuring viable economic production, in the face of wide spread illegal imports and competitor entries in Estonia (STA - Sweden) and Latvia (STC - Denmark).

- The government introduced tax stickers in November 1993, however lack of control allows for a significant inflow of parallel products from Russia and Poland. The contraband is fuelled by the tax gap between Russia and Lithuania for the 70mm segment, especially our Astra and Prima brands. The Plan objectives are to:

  - Lobby for stricter border control and an appropriate reduction of excise tax for locally produced cigarettes to guarantee long term protection of the local industry.
  - Lobby for the maintenance of the specific tax on imports to be above the level of specific tax on local production.

- Our aim in production is to gradually replace imports of PM's international brands with production at the new factory in Klaipeda and reduce reliance on contract manufacture ahead of the end of our agreement with the Kaunas factory, while boosting exports of low cost Astra/Prima to Eastern Europe.

- Factory plans are detailed in the Regional Operations Plan.

- Cigarettes are sold through newly privatised shops and small independent kiosk owners. Reliable market data was limited following the break-up of the state distribution systems. We plan to use the newly completed retail census to establish a merchandising team of 30 people, in co-operation with KJS.

LITHUANIA VOLUME FORECAST

Units (million)	LE 1993	1994	1995	1996
Lithuania Domestic Market				
• Imports				
Marlboro	-	80	175	30
Bond Street	13	480	-	-
L & M	30	40	70	-
Total Imports	43	600	245	30
• PML Local Production				
Marlboro	-	-	-	300
Bond Street	-	-	500	700
L & M	-	-	-	100
Astra / Prima	1,800	600	300	220
Kaunas / Klaipeda	300	1,400	750	800
Kastytis	-	600	430	450
New Brand	100	600	700	850
Total Local Production	2,200	3,200	2,680	3,420
Lithuania Exports to Eastern Europe				
Astra / Prima	-	2,400	2,650	2,200
Kaunas / Klaipeda	-	-	250	200
Kastytis	-	-	175	150
Total Lithuania Exports	-	2,400	3,075	2,550
Total Domestic Market/Lithuania Exports	**2,243**	**6,200**	**6,000**	**6,000**

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Central Europe

CENTRAL EUROPE
VOLUME AND INCOME SUMMARY

	UNIT VOLUME (BIO)					I.F.O. ($ MIO)				
	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
Czech Republic	15.6	16.5	16.6	16.6	2.0	52.9	67.4	77.8	81.1	15.3
Slovakia	2.2	2.3	2.4	2.5	5.2	5.4	5.3	6.6	11.9	30.5
Poland	3.9	22.6	39.8	40.1	100.0+	2.2	24.1	41.2	56.9	100.0+
Hungary	4.2	6.1	6.9	8.6	27.1	2.9	6.5	10.6	13.9	68.1
C. Europe South	2.2	3.0	3.7	4.5	26.1	27.2	35.7	44.7	51.2	23.5
Bulgaria	2.1	3.1	3.9	4.5	28.8	12.0	16.9	17.9	20.1	18.6
Romania	3.9	4.6	4.8	5.1	9.6	4.6	11.3	13.0	15.0	48.9
Total Area	34.1	58.2	78.1	81.9	33.9	107.2	167.2	211.8	250.1	32.6

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CZECH REPUBLIC

KEY FINANCIALS

	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	19.3	19.7	0.8
PM Unit Volume (Bio)	15.6	16.6	2.0
PM Market Share (%)	82.0	83.7	1.7 pts
IFO ($ Mio)	52.9	81.1	15.3

VOLUME AND MARKET SHARE

	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro Red	1.22	1.85	14.9	6.3	9.4	3.1
Marlboro Lights	0.21	0.53	36.2	1.1	2.7	1.6
L&M	0.25	0.55	30.1	1.3	2.8	1.5
Bond	0.21	0.91	63.0	1.1	4.6	3.5
Petra	5.40	5.50	0.6	28.1	27.9	(0.2)
Sparta	2.22	2.42	2.9	11.5	12.3	0.8
Start	5.80	4.41	(8.7)	30.1	22.4	(7.7)

MARKET SITUATION

- "Latest Estimate" figures for 1993 were prepared in September; OB and Plan volume and earning forecasts were based on them.
- Estimates as of December show PM volume in the Czech Republic at 14.9 billion for the full year. The 0.7 billion volume shortfall relative to the September estimate is primarily due to a fourth quarter surge in sales of contraband products, chiefly Mars KS Box and Wiarus KS Soft from Poland, Bastos from Belgium, and Rodeo from Macedonia, all priced in the low price segment.
- Separately, in December, Tabak's legal monopoly of manufacture was abolished by Parliament, as expected. While the new manufacturing legislation requires a state license to produce cigarettes there is no requirement to build a primary. The effect is to encourage establishment of make-pack operations by new entrants. We expect attempts to penetrate the market by RJR, BAT, and Rothmans in the near term.
- Taking into account the price pressures from contraband and the likelihood of intensive efforts by legitimate manufacturers to enter the attractive Czech market we have:
  - reduced our volume expectations, relative to OB and Plan forecasts;
  - decided to forego, for the time being, planned price increases for Marlboro;

- decided to reduce the price of L&M to the Sparta class, to anticipate launches of competing international brands; and
- decided to unify the prices of soft and box variants within brand families to force the market toward our relative strength in box packings.

- The effect of reducing our volume expectations and revising our pricing assumptions downward will be a reduction in expected earnings from the Czech market relative to the OB and Plan. Estimated shortfalls versus OB and Plan are:

Incremental Impact of Revised OB/Plan Volume and IFO Projections

	1994	1995	1996
Volume (bio)	(1.7)	(2.1)	(2.4)
IFO ($ mio)	(6.2)	(16.8)	(17.1)

- Note that the revised projection for 1994 IFO includes a one-time benefit of $6 million from assumed duty free importation of tobacco and NTMs. Absent this benefit the IFO variance versus OB would be $(12.2) million in 1994.

- Our chief strategic aims remain:
  - to maximise profitable volume;
  - to further improve our cost position in manufacturing;
  - to pre-empt our competitors' marketing options by occupying all meaningful segments; and
  - to expand our direct distribution network.

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KEY ISSUES AND ACTION PLANS

Pricing and Taxation

- VAT was introduced in January 1993 at the rate of 23% and, in August 1993, the excise tax rate for 70mm cigarettes was increased from KCS 270 to KCS 360/000 ($9 to $12/00), while the excise tax rate for King Size cigarettes was left unchanged at KCS 460/000 ($15.33/000). There were three effects:
  - all cigarettes became less affordable from January;
  - from August, the price gap between 70mm and KS cigarettes was reduced with a resulting decline in volume in the low price/70mm segment; and
  - contraband sales increased to approximately one sixth of consumption.

Action Plans

- Our September OB and Plan forecasts assumed restrained pricing of Marlboro, and relatively larger price increases among low-end products, in order to minimise price gaps. Our current price strategy is set out above under "Market Situation."
- We will work with the authorities to enforce the new tax-sticker system to eliminate contraband as a factor in the market. We will also lobby for increased import duties on cigarettes and cutfiller with a minimum specific charge.
- We will lobby for moderation in future tax increases, maintenance of a specific excise structure and unification of the two excise tax classes by 1996. An important consequence of elimination of the gap between excise tax tiers will be to revitalise the growth of the Petra KS family.

Distribution

- Existing wholesale distribution networks are disorganised and ineffective.
- Given our volume base and leading market share, by under-taking an exclusive PM distribution system, we can:
  - increase entry cost and complicate market access for competitors;

- improve our distribution and coverage and our influence over retail pricing; and
- better assure our position at POS.

Action Plans

- We will undertake direct delivery to key retail outlets accounting for 70 - 80% of Tabak volume. (Total Czech retail universe: 22,000 points-of-sale.)
- We will phase out credit sales by May 1994, and eliminate the wholesale discount, with the aims of forcing wholesalers to diversify away from cigarette sales and rendering this channel less useful to competitors.
- Depending on market evolution, we will continuously evaluate the use of exclusive wholesalers.
- Distribution related headcount will increase from 219 now to 392, mainly due to increasing from 49 to 172 van sellers.

Manufacturing

Major investments in manufacturing are proposed over the Plan period, to increase capacity, notably for box, to improve quality, to enable production of LTN cigarettes and to increase efficiency and productivity. Details are set out in the Regional Operations Plan.

Monopoly Act

Tabak's legal monopoly of local manufacture has been abolished. While a state license to manufacture is required, there is no requirement to build a primary. RJR, Rothmans and BAT are likely candidates to establish local make pack operations.

Action Plans

- We will lobby for an appropriate increase in the duty on cutfiller and strict enforcement of the licensing requirement.

Marketing Freedom

In July 1993 an advertising ban in the Czech Republic was rescinded. In December, Parliament reinstated the ban in un-related manufacturing legislation by a 2-vote margin.

Action Plans

- We will lobby for immediate reversal of the ban. At the same time we will work for legislation allowing reasonable marketing freedoms.

Brand Strategies

For ***Marlboro***, we will:

- Hold price in 1994 and implement only restrained increases thereafter, taking the competitive situation into account;
- Continue to build awareness potentially via diversifications;
- Continue the ML Rock-In and Brno Grand Prix promotions;
- Launch ML and MLL 100's variants; and
- Launch ML and MLL 100's Menthol variants.

For ***L&M***, we will:

- Reposition L&M to the Sparta price class;
- Evaluate the launch of L&M 25's; and
- Increase/improve merchandising and L&M promotions.

For *Bond*, we will:

- Increase penetration of the 70mm/low price segment with a full range of box/soft and full flavour/lights variants;
- Reinforce Bond's USP as the low price quality international product;
- Add Bond KS full flavour and Lights variants in the medium price class;
- Adapt programs in the light of ongoing consumer research; and

For *Sparta*, we will:

- Launch Sparta 100's to generate news for the family; and
- Sustain momentum in the growing lights segment, notably among new smokers.

For *Petra*, we will:

- Reinforce Petra as an affordable quality product offering more choices than any competing family;
- Adapt programs in the light of ongoing consumer research; and

For *Start*, we will:

- Launch Start KS Lights in the low price class;
- Consider Start KS FF and Lights in box format; and
- Add more choice in the low price class by launching Start 70mm Lights.

CZECH REPUBLIC - INCOME STATEMENT
($ 000)

					CAG %	($ PER 000)				CAG %
	LE 1993	OB 1994	1995	1996	LE 93-96	LE 1993	OB 1994	1995	1996	LE 93-96
Cig. Volume (Millions)	15,638.0	16,514.0	16,575.0	16,595.0	2.00%					
Net Operating Revenues	178,740	200,253	213,884	223,163	7.68%	11.43	12.13	12.90	13.45	5.57%
Std Variable Cost	96,742	96,302	95,274	100,578	(1.30)%	6.19	5.83	5.75	6.06	0.68%
SVC Deviations	(6,296)	(3,560)	-	-	100.00%	(0.40)	(0.22)	-	-	100.00%
LIFO	241	268	366	400	(18.40)%	0.02	0.02	0.02	0.02	(16.08)%
Marginal Contribution	88,053	107,243	118,244	122,185	11.54%	5.63	6.49	7.13	7.36	9.35%
Direct Marketing	6,569	7,129	7,478	7,772	(5.77)%	0.42	0.43	0.45	0.47	(3.69)%
Office Expenses	2,630	2,623	2,754	2,864	(2.88)%	0.17	0.16	0.17	0.17	(0.86)%
Other Indirect Marketing	908	803	843	876	1.19%	0.06	0.05	0.05	0.05	3.13%
Controllable Margin	77,946	96,688	107,169	110,673	12.40%	4.98	5.85	6.47	6.67	10.19%
Alloc. Office Expenses	1,730	1,078	849	851	21.06%	0.11	0.07	0.05	0.05	22.61%
Fixed Manufacturing Exp.	15,610	18,346	20,988	20,869	(10.16)%	1.00	1.11	1.27	1.26	(8.00)%
General & Administrative	7,694	9,809	7,631	7,922	(0.98)%	0.49	0.59	0.46	0.48	1.00%
Income from Operations	52,912	67,455	77,701	81,031	15.27%	3.38	4.08	4.69	4.88	13.01%

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CZECH REPUBLIC - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	19.40	19.25	19.65	19.70	19.71					
Marlboro Red	1.55	1.22	1.40	1.76	1.85	8.0	6.3	7.1	8.9	9.4
Marlboro Lights	-	0.21	0.35	0.49	0.53	-	1.1	1.8	2.5	2.7
TOTAL MARLBORO	1.55	1.43	1.75	2.25	2.38	8.0	7.4	8.9	11.4	12.1
L&M	-	0.25	0.34	0.51	0.55	-	1.3	1.7	2.6	2.8
Bond St.	-	0.21	0.50	0.93	0.91	-	1.1	2.5	4.7	4.6
Petra	8.47	5.40	5.40	4.80	5.50	43.7	28.1	27.6	24.4	27.9
Sparta	2.10	2.22	2.30	2.30	2.42	10.8	11.5	11.7	11.7	12.3
Start	2.31	5.80	5.85	5.36	4.41	11.9	30.1	29.8	27.2	22.4
Other Tabak	0.99	0.49	0.30	0.34	0.33	5.1	2.5	1.5	1.7	1.6
TOTAL PM / TABAK	15.42	15.80	16.44	16.49	16.50	79.5	82.0	83.7	83.7	83.7

CZECH REPUBLIC - COMPETITOR MARKET SHARE (%)

	1992	LE 1993	OB 1994	1995	1996
PM / Tabak	79.5	82.0	83.7	83.7	83.7
SIT	12.4	11.0	8.9	8.9	8.9
Others	8.1	7.0	7.4	7.4	7.4
Total Market	100.0	100.0	100.0	100.0	100.0

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CZECH REPUBLIC - NEW BRAND PROFILES

MARLBORO 100	OB 1994	1995	1996
Launch Date: February, 1994			
Unit Volume (Millions)	150	160	160
Market Share (%)	1.0	0.8	0.8
Retail Price - Year End (CKS/Pack)	36.0	39.3	41.9
Net Ex-factory Price - Year Average ($/000)	24.53	24.20	23.72
Marginal Contribution - Year Average ($/000)	12.77	13.61	12.69

Rationale

- Strengthen the brand family.
- Increased value for the consumer
- No 100mm product in Tabak portfolio.

Direct Marketing included in brand family DME

BOND KS	OB 1994	1995	1996
Launch Date: October, 1994			
Unit Volume (Millions)	25	232	253
Market Share (%)	0.1	1.2	1.3
Retail Price - Year End (CKS/Pack)	26.5	30.8	33.4
Net Ex-factory Price - Year Average ($/000)	14.91	15.29	15.34
Marginal Contribution - Year Average ($/000)	10.0	10.16	10.07

Rationale

- New manufacturers expected to launch international trademarks in the medium-price segment.
- Strengthen our presence in the medium-price
- segment.
- Protect Tabak segment share.

Direct Marketing included in brand family DME

BOND LIGHTS BOX (70MM)	OB 1994	1995	1996
Launch Date: April, 1994			
Unit Volume (Millions)	125	190	170
Market Share (%)	0.8	1.0	0.9
Retail Price - Year End (CKS/Pack)	19.53	25.14	29.15
Net Ex-factory Price - Year Average ($/000)	10.08	10.47	10.79
Marginal Contribution - Year Average ($/000)	5.02	5.36	5.54

Rationale

- Exploit the market for 70mm Lights cigarettes.
- Compete with SIT's Mars 70mm Lights

Direct Marketing included in brand family DME

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CZECH REPUBLIC- NEW BRAND PROFILES

SPARTA 100

Launch Date: August, 1994	OB 1994	1995	1996
Unit Volume (Millions)	150	225	251
Market Share (%)	0.8	1.2	1.3
Retail Price - Year End (CKS/Pack)	27.5	31.3	33.9
Net Ex-factory Price - Year Average ($/000)	15.45	15.83	15.83
Marginal Contribution - Year Average ($/000)	9.11	9.22	9.02

Rationale

- Enhance the value of the parent brand
- Exploit the potential for 100mm cigarettes
- The only local brand in 100mm format.

Direct Marketing included in brand family DME

START KS LIGHTS

Launch Date: January, 1994	OB 1994	1995	1996
Unit Volume (Millions)	300	528	800
Market Share (%)	1.5	2.7	4.1
Retail Price - Year End (CKS/Pack)	21.0	24.8	27.9
Net Ex-factory Price - Year Average ($/000)	8.71	8.95	9.37
Marginal Contribution - Year Average ($/000)	4.09	4.66	4.95

Rationale

- Compete with SIT's Mars KS Lights
- Provide current 70mm smoker with a platform to upgrade to KS

Direct Marketing included in brand family DME

START 70MM LIGHTS

Launch Date: May, 1994	OB 1994	1995	1996
Unit Volume (Millions)	300	360	360
Market Share (%)	1.5	1.8	1.8
Retail Price - Year End (CKS/Pack)	17.5	23.1	27.2
Net Ex-factory Price - Year Average ($/000)	8.35	8.74	9.14
Marginal Contribution - Year Average ($/000)	3.99	4.61	4.90

Rationale

- Compete with SIT's Mars 70mm Lights
- Provide 70mm smokers with a lights alternative

Direct Marketing included in brand family DME

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CZECH REPUBLIC - NEW BRAND PROFILES

REVAMPED BAKARA			
	OB 1994	1995	1996
Launch Date: March, 1994			
Unit Volume (Millions)	200	240	225
Market Share (%)	1.0	1.2	1.1
Retail Price - Year End (CKS/Pack)	16.5	22.1	26.1
Net Ex-factory Price - Year Average ($/000)	7.21	7.68	8.16
Marginal Contribution - Year Average ($/000)	2.98	3.42	3.77

Rationale

- Improve the design of the brand.
- Compete with SIT's Inka, the cheapest filter brand on the market.

Direct Marketing included in brand family DME

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CZECH REPUBLIC - MARLBORO PRICE STRUCTURE

CKS PER 000 CIGARETTES	BASE PRICE	INCREASES			END PRICE
	(31/12/93	1994	1995	1996	(31/12/96)
MARLBORO RED KS					
Manufacturer	760.0	-	25.0	40.0	825.0
Taxes	788.0	88.5	32.0	74.0	982.5
Trade	204.5	12.0	7.5	15.0	239.0
Total Price Increase	1,752.5	100.5	64.5	129.0	2,046.5
Ending Retail Price					
- CKS per 000	1,752.5	1,853.0	1,917.5	2,046.5	2,046.5
- CKS per Pack	35.05	37.06	38.35	40.93	40.93
Date of Increase		July	July	July	
Marginal Contribution (Average)					
- $ per 000		13.35	13.67	13.09	
Exchange Rate (Average)		31.5	33.0	35.0	
Net Ex-factory Price (Average) $/000		24.13	23.41	23.00	
Inflation (%)		12	11	10	

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SLOVAK REPUBLIC

KEY FINANCIALS

	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	8.3	8.3	0.2
PM Unit Volume (Bio)	2.2	2.5	5.2
PM Market Share (%)	23.0	30.4	7.4
IFO ($ Mio)	5.4	11.9	30.5

VOLUME AND MARKET SHARE

	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro Red	0.23	0.30	9.3	2.8	3.6	0.8
Marlboro Lights	0.04	0.13	48.1	0.5	1.5	1.0
L&M	0.03	0.05	18.6	0.4	0.6	0.2
Bond	0.07	0.17	34.4	0.9	2.1	1.2
Petra	0.70	0.77	3.2	8.5	9.3	0.8
Sparta	0.51	0.49	(1.3)	6.2	5.9	(0.3)
Start	0.29	0.57	25.3	3.5	6.9	3.4

MARKET SITUATION

- The Plan assumes stable industry volumes but continued devaluation of the Slovak Crown and continuation of the two-tier excise tax system which favours local 70mm cigarettes over King size. The break up of Czechoslovakia in January 1993 has left PM without a manufacturing presence in Slovakia, as all of Tabak's factories are in the Czech Republic. PM's access to the Slovak market continues uninterrupted, however, due to a customs union between the two successor Republics. The Plan assumes no change to this favourable arrangement.

- While PM/Tabak KS brands are well known in Slovakia, we are under represented in the key 70mm segment, which is now dominated by Reemtsma/SIT, the sole manufacturer in Slovakia.

- Our chief aims in Slovakia are:

  - to establish a proprietary distribution system in Slovakia, and thus,
  - increase penetration of the 70mm segment with value-added products while boosting Marlboro sales;
  - to utilise our improving cost position in manufacturing; and
  - to forestall Reemtsma/SIT's attempts to penetrate the Czech market by pricing competitively in their home, Slovak market.

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- As in the Czech market, we now plan to hold the price of Marlboro, to reposition L&M to the Sparta price class, and to unify prices for box and soft variants within brand families. More competitive pricing will accelerate penetration of the market and increase volumes over the OB and Plan forecasts. Concurrently, the OB and Plan assumed imposition of a temporary (1994-1995) 20% duty on goods made in the Czech Republic. This now appears unlikely, and is excluded from our revised projections. The forecast impact versus OB/Plan forecast is:

The Incremental Impact of Revised OB/Plan Assumptions:

	1994	1995	1996
Volume (bio)	0.4	0.5	0.5
IFO ($ mio)	3.1	3.6	(0.8)

KEY ISSUES AND ACTION PLANS

Pricing and Taxation

- VAT was introduced in January 1993 at the rate of 23%. In August the rate was increased to 25%. Also in August 1993, the excise tax rates were increased as follows:
  - the tax on 70mm cigarettes was increased 44% from SKS 270 to SKS 390/000, and
  - the tax on KS cigarettes was increased 39% from SKS 460 to SKS 640/000.
- As a result of VAT introduction and higher excise taxes, retail prices have increased, relative to August 1992 as follows for key brands:

Brand	Segment	RSP Chg. vs August 1992
Marlboro	Premium	67%
Sparta	High	83%
Petra	Medium	83%
Dalila KS (SIT)	Medium	87%
Start/Mars (SIT)	Low	100%

- Due to eroding purchasing power, downtrading to the 70mm segment has been substantial, which has benefited Tabak's Start Filter and SIT's Mars brand, but has hurt higher margin Sparta and Petra. Contraband sales have also increased, now amounting to an estimated 50 million per month or 7% SOM, approximately.

Action Plans

- Our current pricing strategy is set out above, under "Market Situation."
- We will work with the authorities to enforce the new tax sticker system to eliminate contraband .
- We will lobby for restraint on future tax increases, maintenance of a specific excise structure and a narrowed gap between the excise tax classes.

Distribution

- PM/Tabak is under represented in the Slovak market and SIT's traditional local brands are vulnerable to value-added products.
- Existing wholesale distribution networks are disorganised and ineffective.
- By under-taking an exclusive PM distribution system, we will:

- increase PM's market penetration and coverage;
- improve our influence over retail pricing; and
- better assure our position at POS in the event mass advertising remains prohibited.

Action Plans

- We will undertake direct delivery to key retail outlets accounting for 80% of Tabak volume. (Total Slovak retail universe: 7,500 points-of-sale.)
- Depending on market evolution, we will continuously evaluate the use of exclusive wholesalers.
- Distribution related headcount will increase from 49 now to 145, mainly due to increasing from 13 to 83 van sellers.

Manufacturing

- In the event the customs union is dissolved, we will negotiate a reciprocal contract manufacturing agreement with SIT.

Marketing Freedom

- We will work for reasonable interpretation of the "Consumer Protection Act" which unduly limits communication with consumers.

Brand Strategies

For ***Marlboro***, we will:

- Hold the price of Marlboro in 1994 and implement only restrained increases thereafter, taking competitor's tactics into account;

- Continue to build awareness via POS programs and increased merchandising;
- Launch ML and MLL 100's variants; and
- Launch ML and MLL 100's Menthol variants.

For ***L&M***, we will:

- Reposition L&M to the Sparta price class;
- Evaluate the launch of L&M 25's; and
- Increase/improve merchandising and L&M promotions.

For ***Bond***, we will:

- Increase penetration of the growing 70mm/low price segment with a full range of box/soft and full flavour/lights variants;
- Reinforce Bond's USP as the low price quality international product using available media;
- Add Bond KS full flavour and Lights variants in the medium price class; and
- Adapt programs in the light of ongoing consumer research.

For ***Sparta***, we will:

- Launch Sparta 100's to generate news for the family;
- Sustain momentum in the growing lights segment, notably among new smokers; and
- Revamp and improve advertising, consistent with Sparta's "affordable quality" positioning.

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For ***Petra***, we will:

- Reinforce Petra as an affordable quality product offering more choices than any competitors' family;
- Adapt programs in the light of ongoing consumer research.

For ***Start***, we will:

- Communicate Start quality to prompt switching by Mars smokers;
- Launch Start KS Lights and evaluate Start KS FF/Lights in box format;
- Add more choice in the low price class by launching Start 70mm Lights.
- Improve visibility and increase brand availability to 100% of the retail universe.

Additionally, we plan a new product launch to gain volume in the growing 70mm segment. Packaging is now in development.

2500065288

SLOVAKIA - INCOME STATEMENT
($ 000)

						($ PER 000)				
	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	2,168.0	2,215.0	2,395.0	2,526.0	5.23%					
Net Operating Revenues	22,621	24,383	27,415	34,352	14.94%	10.43	11.01	11.45	13.60	9.23%
Std Variable Cost	13,448	13,708	14,287	15,566	(5.00)%	6.20	6.19	5.97	6.16	0.22%
SVC Deviations	(1,065)	(638)	2	2	N.A.	(0.49)	(0.29)	0.00	0.00	N.A.
LIFO	38	54	82	88	(32.30)%	0.02	0.02	0.03	0.03	(25.73)%
Marginal Contribution	10,200	11,259	13,044	18,696	22.38%	4.70	5.08	5.45	7.40	16.30%
Direct Marketing	1,180	1,685	1,772	1,845	(16.07)%	0.54	0.76	0.74	0.73	(10.30)%
Office Expenses	166	345	362	377	(31.45)%	0.08	0.16	0.15	0.15	(24.92)%
Other Indirect Marketing	62	12	13	14	39.11%	0.03	0.01	0.01	0.01	42.13%
Controllable Margin	8,792	9,217	10,897	16,460	23.25%	4.06	4.16	4.55	6.52	17.13%
Alloc. Office Expenses	239	145	123	129	18.58%	0.11	0.07	0.05	0.05	22.62%
Fixed Manufacturing Exp.	2,114	2,481	3,079	3,225	(15.12)%	0.98	1.12	1.29	1.28	(9.40)%
General & Administrative	1,066	1,295	1,078	1,183	(3.53)%	0.49	0.58	0.45	0.47	1.61%
Income from Operations	5,373	5,296	6,617	11,923	30.43%	2.48	2.39	2.76	4.72	23.96%

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SLOVAKIA - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	8.60	8.25	8.35	8.31	8.29					
Marlboro Red	0.26	0.23	0.24	0.29	0.30	3.0	2.8	2.9	3.5	3.6
Marlboro Lights	-	0.04	0.09	0.12	0.13	-	0.5	1.1	1.4	1.5
TOTAL MARLBORO	0.26	0.27	0.33	0.41	0.43	3.0	3.3	4.0	4.9	5.1
L&M	-	0.03	0.03	0.04	0.05	-	0.4	0.4	0.6	0.6
Bond St.	-	0.07	0.10	0.17	0.17	-	0.9	1.2	2.1	2.1
Petra	0.95	0.70	0.70	0.65	0.77	11.1	8.5	8.4	7.8	9.3
Sparta	0.70	0.51	0.50	0.50	0.49	8.1	6.2	6.0	6.0	5.9
Start	0.05	0.29	0.50	0.56	0.57	0.6	3.5	5.9	6.7	6.9
Other Tabak	0.04	0.03	0.05	0.06	0.06	0.5	0.2	0.6	0.7	0.7
TOTAL PM / TABAK	2.00	1.90	2.21	2.39	2.52	23.3	23.0	26.5	28.8	30.4

SLOVAKIA - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
PM / Tabak	23.3	23.0	26.5	28.8	30.4
SIT	69.8	70.9	67.1	64.7	63.1
Others	6.9	6.1	6.4	6.5	6.5
Total Market	100.0	100.0	100.0	100.0	100.0

2500065290

SLOVAKIA - NEW BRAND PROFILES

MARLBORO 100

Launch Date: February, 1994	OB 1994	1995	1996
Unit Volume (Millions)	40	40	40
Market Share (%)	0.5	0.5	0.5
Retail Price - Year End (SKS/Pack)	43.5	56.8	61.6
Net Ex-factory Price - Year Average ($/000)	20.39	20.14	23.51
Marginal Contribution - Year Average ($/000)	8.25	8.88	11.77

Rationale

- Strengthen the brand family.
- Increased value for the consumer
- No 100mm product in Tabak portfolio.

Direct Marketing included in brand family DME

BOND KS

Launch Date: January, 1995	OB 1994	1995	1996
Unit Volume (Millions)		18	17
Market Share (%)		0.2	0.2
Retail Price - Year End (SKS/Pack)		44.7	49.2
Net Ex-factory Price - Year Average ($/000)		12.73	13.04
Marginal Contribution - Year Average ($/000)		7.62	7.78

Rationale

- New manufacturers expected to launch international trademarks in the medium-price segment.
- Strengthen our presence in the medium-price
- segment.
- Protect Tabak segment share.

Direct Marketing included in brand family DME

BOND LIGHTS BOX (70MM)

Launch Date: April, 1994	OB 1994	1995	1996
Unit Volume (Millions)	40	60	60
Market Share (%)	0.5	0.7	0.7
Retail Price - Year End (SKS/Pack)	21.4	29.9	34.3
Net Ex-factory Price - Year Average ($/000)	8.31	8.61	9.96
Marginal Contribution - Year Average ($/000)	3.25	3.51	4.71

Rationale

- Exploit the market for 70mm Lights cigarettes.
- Compete with SIT's Mars 70mm Lights

Direct Marketing included in brand family DME

2500065291

SLOVAKIA - NEW BRAND PROFILES

SPARTA 100	OB 1994	1995	1996
Launch Date: August, 1994			
Unit Volume (Millions)	25	55	49
Market Share (%)	0.3	0.7	0.6
Retail Price - Year End (SKS/Pack)	34.2	45.3	50.0
Net Ex-factory Price - Year Average ($/000)	12.86	13.16	15.62
Marginal Contribution - Year Average ($/000)	6.52	6.56	8.84

Rationale

- Enhance the value of the parent brand
- Exploit the potential for 100mm cigarettes
- The only local brand in 100mm format.

Direct Marketing included in brand family DME

START KS LIGHTS	OB 1994	1995	1996
Launch Date: January, 1994			
Unit Volume (Millions)	40	20	40
Market Share (%)	0.5	0.2	0.5
Retail Price - Year End (SKS/Pack)	27.2	36.2	40.4
Net Ex-factory Price - Year Average ($/000)	7.24	7.44	9.15
Marginal Contribution - Year Average ($/000)	2.63	3.14	4.73

Rationale

- Compete with SIT's Mars KS Lights
- Provide current 70mm smoker with a platform to upgrade to KS

Direct Marketing included in brand family DME

START 70MM LIGHTS	OB 1994	1995	1996
Launch Date: May, 1994			
Unit Volume (Millions)	120	140	130
Market Share (%)	1.4	1.7	1.6
Retail Price - Year End (SKS/Pack)	19.2	27.1	31.4
Net Ex-factory Price - Year Average ($/000)	6.95	7.29	8.97
Marginal Contribution - Year Average ($/000)	2.61	3.16	4.73

Rationale

- Compete with SIT's Mars 70mm Lights
- Provide 70mm smokers with a lights alternative

Direct Marketing included in brand family DME

2500065292

SLOVAKIA - NEW BRAND PROFILES

REVAMPED BAKARA			
	OB 1994	1995	1996
Launch Date: March, 1994			
Unit Volume (Millions)	50	60	55
Market Share (%)	0.6	0.7	0.7
Retail Price - Year End (SKS/Pack)	18.2	25.6	29.9
Net Ex-factory Price - Year Average ($/000)	6.01	6.42	7.97
Marginal Contribution - Year Average ($/000)	1.78	2.16	3.58

Rationale

- Improve the design of the brand.
- Compete with SIT's Inka, the cheapest filter brand on the market.

Direct Marketing included in brand family DME

2500065293

SLOVAKIA - MARLBORO PRICE STRUCTURE

SKS PER 000 CIGARETTES	BASE PRICE (31/12/93	INCREASES 1994	1995	1996	END PRICE (31/12/96)
MARLBORO RED KS					
Manufacturer	813.0	31.5	68.0	245.0	1,157.5
Taxes	1,065.5	304.5	166.0	(34.5)	1,501.5
Trade	247.5	44.5	31.0	27.5	350.5
Total Price Increase	2,126.0	380.5	265.0	238.0	3,009.5
Ending Retail Price					
- SKS per 000	2,126.0	2,506.5	2,771.5	3,009.5	3,009.5
- SKS per Pack	42.5	50.1	55.4	60.2	60.2
Date of Increase		July	July	July	
Marginal Contribution (Average)					
- $ per 000		8.88	9.66	12.65	
Exchange Rate (Average)		42.0	46.0	50.0	
Net Ex-factory Price (Average) $/000		20.10	19.51	22.78	
Inflation (%)		18	15	12	

2500065294

CZECH & SLOVAKIA REPUBLICS
COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	17.8	18.7	19.0	17.8	19.0	19.8	0.1	(0.3)	(0.8)
OPERATING REVENUES	201.4	224.6	241.3	227.1	263.0	304.1	(25.7)	(38.4)	(62.8)
MARGINAL CONTRIBUTION	98.3	118.5	131.3	115.8	135.6	160.4	(17.5)	(17.1)	(29.1)
FME	17.7	20.8	24.1	24.9	25.1	28.2	7.2	4.3	4.1
DIRECT MARKETING	7.7	8.8	9.3	11.4	12.7	14.1	3.7	3.9	4.8
INDIRECT MARKETING	5.8	5.0	4.9	10.4	10.8	10.9	4.6	5.8	6.0
G&A	8.8	11.1	8.7	5.5	7.3	7.6	(3.3)	(3.8)	(1.1)
TOTAL EXPENSES	22.3	24.9	22.9	27.3	30.8	32.6	5.0	5.9	9.7
INCOME FROM OPERATIONS	58.3	72.8	84.3	63.6	79.7	99.6	(5.3)	(6.9)	(15.3)

The negative IFO variance is due to:

- the devaluation of the Slovak Crown
- a weaker Czech Crown in this year's Plan
- an adverse volume mix due to the growth of Start at the expense of Marlboro and Petra

2500065295

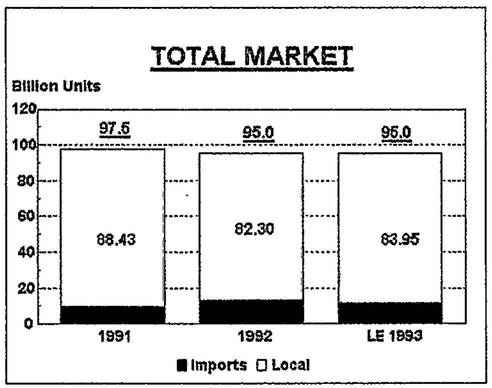
POLAND

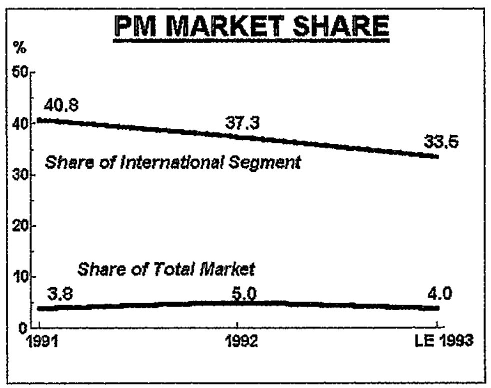
KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	95.0	95.0	-
PM Unit Volume (Bio)	3.8	40.0	100.0+
PM Market Share (%)	4.0	42.1	38.1pts
IFO ($ Mio)	2.2	56.9	100.0+

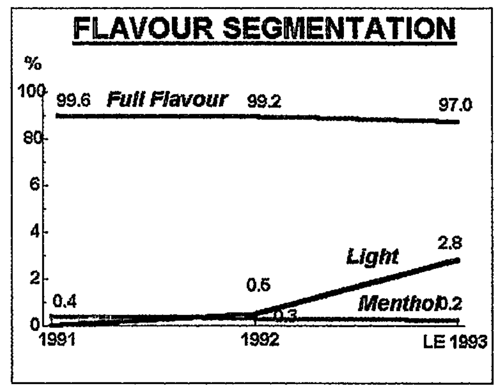
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	3.6	7.6	28.3	3.8	8.0	4.2
L&M	0.2	1.0	71.0	0.2	1.1	0.9
ZPT Brands	-	31.4	-	-	33.0	33.0

MARKET SITUATION

- The total market is expected to remain flat at approximately 95 billion. The market is currently dominated by low price local brands due to the low level of consumer disposable income and state ownership of the Polish manufacturing industry. The market is essentially full flavour, with a small but growing lights segment, and a very small menthol segment.
- PM sales have been limited by licensee, ZPT Krakow (ZPT), manufacturing capacity, and the introduction of new brands by competitors, particularly Camel and Golden American 25s, resulting in a declining share of the international segment and of the total market. PM volume decreased in 1993, as PM ceased to import for the domestic market.
- Industry privatisation and entry of international competitors, expected in 1994, will result in new product launches and price initiatives, and a decline in high volume low price local brands.







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KEY ISSUES AND ACTION PLANS

ZPT Privatisation

- The newly elected government formed by a coalition of socialist and agricultural parties, has stated its intention to support privatisation of the cigarette industry, with foreign investor participation. The government's ability to implement this policy will depend upon the strength of the coalition, and will be supported by pressure from Western lenders and advisors to privatise major industries as rapidly as possible.

- PM intends to acquire a majority interest in ZPT as soon as possible in order to increase its local manufacturing base for PM brands and establish the leading position in the market.

- Our plan objectives are to:

  - Maintain our lobbying pressure on ZPT, the industry, and the ministries to speed up the privatisation process, and allow PM to acquire a majority stake in ZPT.
  - Acquire shares in ZPT by mid 1994, assuming PM will initially purchase a minority stake which it will increase to 51% by end 1994 through dilution. Further shares to increase the shareholding to 76% will be purchased from the Polish treasury and Polish shareholders in 1995.
  - Negotiate to acquire the unrestricted right to continue to produce ZPT versions of industry trademarks such as Klubowe and Popularne.

- Our plans for integrating ZPT's four factories following acquisition are detailed in the Regional Operations Plan. In the event of delays in privatisation, license capacity could be expanded to a maximum of 8 billion units.

Taxation

- Support for the current four-tier specific excise tax system by the newly elected Polish government has been demonstrated by a recent narrowing of the gap in taxation of local and international cigarettes.

- The current tax system is expected to allay the fears of the Ministry of Agriculture and the tobacco growers concerning protection of local tobacco growing on industry privatisation.

- The Plan objectives are to:

  - Continue to lobby to maintain the predominantly specific tax structure and for further reductions in the gap between taxation on local and international brands.
  - Continue to argue against an increase in import duties on leaf, currently at 30% with a 1.13ECU/Kg. minimum, and in favour of maintaining import duties on finished goods, currently at 90% with 9 ECU/000 minimum, which if properly enforced will protect local manufacturers.

Pricing

- Due to the low level of consumer disposable income it has not been possible to significantly increase the price of Marlboro. Prices of domestic brands are similarly depressed. A significant increase in consumer disposable income is not foreseen during the Plan period.

- The Plan objectives are to:

  - Increase Marlboro prices to maintain real prices in dollar terms.
  - Increase L&M prices to achieve an economic level of profitability.
  - Launch a new domestic brand in a price category between Caro and L&M.
  - Increase Caro 70mm prices in line with inflation, with a greater increase for Caro KS Box to increase the currently small price gap with Caro 70mm.
  - Increase in real terms Klubowe and Popularne prices to begin to narrow the price gap with the mid price and international segments.

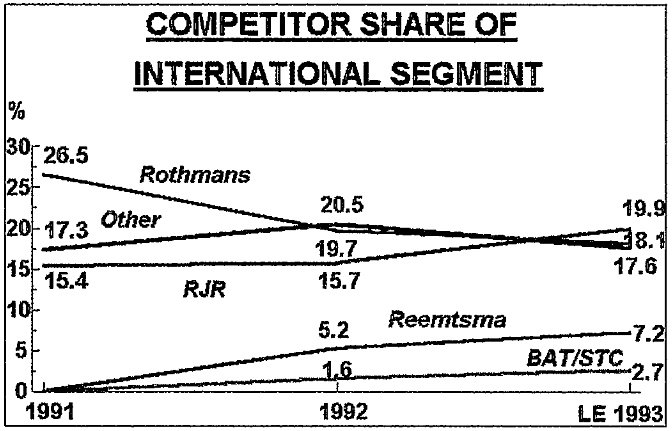
ZLT PER PACK	BASE PRICE (31/12/93)	1994	1995	1996
RETAIL PRICES BY BRAND				
MAJOR PM BRANDS				
Popularne	4,500	6,386	8,491	10,708
Klubowe	5,500	7,805	10,541	13,051
Caro 70mm	7,600	9,697	12,606	15,127
Caro KS Box	-	10,879	14,640	18,070
L&M 20s	15,000	21,285	-	-
L&M 25s	-	26,725	35,721	44,172
Marlboro	19,000	26,961	35,049	42,059
Inflation (%)		38	30	20

Distribution

- ZPT sales are concentrated in the south of Poland. It will be necessary to develop distribution of ZPT and PM brands in other regions of Poland, and to improve distribution in the south.
- Retail outlets receive cigarettes from multiple sources some of which are illegal. Ordering is infrequent and there is no inventory planning.
- The plan objectives are to:
  - Gain experience from the pilot depot project in Bydgoszcz, and depending on the prospects for acquisition of ZPT by PM, to extend an owned distribution network to 9 further depots during 1994 and 1995 which will serve wholesalers and retailers both on a cash and carry and, to a limited extent, direct delivery basis.
  - Develop a nation-wide salesforce to ensure effective distribution of PM/ZPT products throughout Poland, and establish an efficient wholesale network.
  - Lobby for enforcement of regulations to curb illegal imports in order to ensure maximum distribution of locally manufactured products.

Competition

- In the international segment, Marlboro's dominant share is decreasing due to competitor brands, particularly RJR's Camel, Rothmans' Golden American 25s and Reemtsma's West. Volume in the international segment decreased slightly in 1993 due to a decrease in Golden American imports and to no significant Marlboro imports. As local manufacturing capacity increases, the international segment will resume its growth. In the domestic segment, ZPT Poznan's Mars, and ZPT's Caro, both mid-price brands, are gaining share at the expense of low price local brands.



TOP 10 BRANDS MARKET SHARE (%)

	1991	1992	LE 1993
Popularne*	28.1	23.9	19.5
Klubowe*	20.7	19.0	18.4
Mocne	12.6	10.6	10.7
Caro	5.4	7.2	8.6
Mars	2.1	4.3	8.2
Radomskie	8.2	6.1	4.5
Marlboro Red	3.4	4.8	3.7
Nord	2.1	2.9	2.9
Camel	1.4	2.1	2.4
Radom	-	1.1	2.2

* All manufacturers

- Privatisation of the Polish cigarette industry in 1994 is expected to lead to increased activity from international competitors, in terms of marketing, new brand launches in the international and domestic segments, and price initiatives.
- Following privatisation the major threat in terms of market share is expected to be from Reemtsma who will probably acquire ZPT Poznan. Mars the mid price local brand produced by ZPT Poznan is expected to continue to grow strongly.
- Further competition will come from BAT and Rothmans both of whom are expected to acquire shares in Polish cigarette manufacturers.
- RJR will compete in both the international and local segments, manufacturing cigarettes at its greenfield factory in Warsaw. Brand launches of Winston 25s and a new local brand, 777, have recently been announced.

2500065300

Brand Strategies

- Marlboro Red is expected to gain market share. Growth is currently limited by production capacity at our licensee.
- L&M currently has limited volume also due to production capacity limitations and no 25s pack capacity. Sales volume is expected to increase significantly at below premium pricing after production capacity has been increased and the brand changed to the 25s format.
- For ***Marlboro*** we will:
  - Increase production capacity at ZPT
  - Launch Marlboro Lights in 1994
  - Launch Marlboro Red and Lights KS Box in 10s format in 1995
  - Launch Marlboro Red and Lights in 100mm format in 1996
  - Ensure Marlboro leadership in the international segment with a strong media campaign, promotion and dominance at POS.
- For **L&M** we will:
  - Change L&M to 25s format in 1995.
  - Launch L&M Lights KS Box 25s in 1996
  - Support L&M with DME
- For ***domestic brands*** we will:
  - Launch a new domestic mid price KS box product to compete against Mars in 1994
  - Launch a Lights version of the new brand in 1995, and 100s line extensions in 1996
  - Increase the KS box production of Caro and launch a Lights version in 1995, and a 100s version in 1996.
  - Launch a Lights version of Carmen KS Box in 1995

- Support expansion of Caro volume and protect Klubowe volume through marketing programs and DME.
- Improve product quality and blend consistency through improvements in tobacco processing, pack design, and quality control

UPSIDE / DOWNSIDE

	1994		1995		1996	
	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
ZPT acquisition delayed until January 1 1995, resulting in lost volume	(16,570)	(20.0)	(500)	(4.4)	(600)	(5.3)
Lower consumer disposable income resulting in lower prices	-	(4.7)	-	(12.1)	-	(19.4)

2500065302

POLAND - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	3,840.0	22,570.0	39,825.0	40,065.0	100.00+%					
Net Operating Revenues	31,653	170,807	349,558	414,151	100.00+%	8.24	7.57	8.78	10.34	7.84%
Std Variable Cost	13,211	93,524	203,873	243,328	100.00+%	3.44	4.14	5.12	6.07	(20.86)%
SVC Deviations	(201)	(156)	-	-	100.00%	(0.05)	(0.01)	-	-	100.00%
LIFO	585	898	1,016	1,174	(26.14)%	0.15	0.04	0.03	0.03	42.28%
Marginal Contribution	18,058	76,541	144,669	169,649	100.00+%	4.70	3.39	3.63	4.23	(3.44)%
Direct Marketing	5,129	7,315	14,574	18,179	(52.47)%	1.34	0.32	0.37	0.45	30.22%
Office Expenses	3,174	2,422	3,990	4,215	(9.92)%	0.83	0.11	0.10	0.11	49.70%
Other Indirect Marketing	860	3,275	7,170	6,740	(98.63)%	0.22	0.15	0.18	0.17	9.10%
Controllable Margin	8,895	63,529	118,935	140,515	100.00+%	2.32	2.81	2.99	3.51	14.83%
Alloc. Office Expenses	425	1,474	2,039	2,054	(69.07)%	0.11	0.07	0.05	0.05	22.63%
Fixed Manufacturing Exp.	4,449	25,086	51,121	55,598	(100.00)%	1.16	1.11	1.28	1.39	(6.20)%
General & Administrative	1,820	12,913	24,588	25,922	(100.00)%	0.47	0.57	0.62	0.65	(10.93)%
Income from Operations	2,201	24,056	41,187	56,941	100.00+%	0.57	1.07	1.03	1.42	35.35%

2500065303

POLAND - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	95.00	95.00	95.00	95.00	95.00					
Marlboro Red	4.50	3.60	5.00	5.30	5.90	4.7	3.8	5.3	5.6	6.2
Marlboro Lights	-	-	0.50	1.20	1.70	-	-	0.5	1.3	1.8
TOTAL MARLBORO	4.50	3.60	5.50	6.50	7.60	4.7	3.8	5.8	6.9	8.0
L&M	0.10	0.20	0.50	0.70	1.00	0.1	0.2	0.5	0.7	1.1
ZPT Brands	32.90	33.40	33.10	32.60	31.40	34.7	35.2	34.9	34.3	33.0
Total PM / ZPT	37.50	37.20	39.10	39.80	40.00	39.5	39.2	41.2	41.9	42.1

POLAND - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris/ZPT Krakow	39.5	39.2	41.2	41.9	42.1
Reemtsma/ZPT Poznan	23.2	28.4	28.4	30.5	31.6
RJR	2.1	2.3	3.2	3.7	4.2
BAT/ZPT Augustow	5.7	5.5	5.5	6.3	7.4
RI	2.6	2.1	3.2	3.7	4.7
Other International	2.7	2.1	1.0	1.1	1.1
Local	24.2	20.4	17.5	12.8	8.9
	100.0	100.0	100.0	100.0	100.0

2500065304

POLAND - NEW BRAND PROFILES

MARLBORO LIGHTS KS BOX	OB 1994	1995	1996
Launch Date: QII, 1994			
Unit Volume (Millions)	500	1,000	1,300
Market Share (%)	0.5	1.1	1.4
Retail Price - Year End (ZLT/Pack)	26,961	35,049	42,059
Net Ex-factory Price - Year Average ($/000)	18.58	19.61	20.59
Marginal Contribution - Year Average ($/000)	7.85	7.90	8.03

Rationale

Meet market demand for LTN products, evidenced by existing products in the market, and extend Marlboro franchise.

Direct Marketing included in brand family DME

MARLBORO RED & LIGHTS 10'S	OB 1994	1995	1996
Launch Date: QI, 1995			
Unit Volume (Millions)		500	800
Market Share (%)		0.5	0.8
Retail Price - Year End (ZLT/Pack)		19,325	23,090
Net Ex-factory Price - Year Average ($/000)		23.57	24.75
Marginal Contribution - Year Average ($/000)		8.10	8.50

Rationale

Provide low cost alternative to Marlboro Red and Lights 20's, pending an increase in consumer disposable income.

Direct Marketing included in brand family DME

MARLBORO RED & LIGHTS 100 BOX	OB 1994	1995	1996
Launch Date: QI, 1996			
Unit Volume (Millions)			300
Market Share (%)			0.3
Retail Price - Year End (ZLT/Pack)			48,523
Net Ex-factory Price - Year Average ($/000)			26.82
Marginal Contribution - Year Average ($/000)			9.53

Rationale

Respond to market trends expected to follow a gradual increase in consumer disposable income.

Direct Marketing included in brand family DME

2500065305

POLAND - NEW BRAND PROFILES

MARLBORO RED MENTHOL KS BOX	OB 1994	1995	1996
Launch Date: QII, 1996			
Unit Volume (Millions)			200
Market Share (%)			0.2
Retail Price - Year End (ZLT/Pack)			42,059
Net Ex-factory Price - Year Average ($/000)			20.59
Marginal Contribution - Year Average ($/000)			7.58

Rationale

Extend Marlboro franchise and develop full flavour menthol segment which already exists.

Direct Marketing included in brand family DME

L&M 25'S	OB 1994	1995	1996
Launch Date: QI, 1995			
Unit Volume (Millions)		700	1,000
Market Share (%)		0.7	1.1
Retail Price - Year End (ZLT/Pack)		35,721	44,172
Net Ex-factory Price - Year Average ($/000)		12.22	13.85
Marginal Contribution - Year Average ($/000)		2.53	3.63

Rationale

Meet competitor challenge from Golden American and Winston KS Box 25's

Direct marketing included in brand family DME

POLAND - MARLBORO PRICE STRUCTURE

ZLT PER 000 CIGARETTES

MARLBORO RED KS	BASE PRICE (31/12/93)	INCREASES 1994	1995	1996	END PRICE (31/12/956)
Manufacturer	309,689	129,759	134,732	114,844	689,024
Taxes	488,311	204,603	204,964	179,576	1,077,454
Trade	152,000	63,688	64,704	56,080	336,472
Total Price Increase		398,050	404,400	350,500	
Ending Retail Price					
- ZLT per 000	950,000	1,348,050	1,752,450	2,102,950	
- ZLT per Pack	19,000	26,961	35,049	42,059	
Date of Increase		January	January	January	
Marginal Contribution (Average)					
- $ per 000		8.59	8.71	8.80	
Exchange Rate (Average)		23,650	29,280	33,464	
Net Ex-factory Price (Average) $/000		18.58	19.61	20.59	
Inflation (%)		38	30	20	

2500065307

POLAND - COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	3.8	22.6	39.8	7.0	38.0	38.4	(3.2)	(15.4)	1.4
OPERATING REVENUES	31.6	170.8	349.6	75.0	77.5	86.3	(43.4)	93.3	263.3
MARGINAL CONTRIBUTION	18.1	76.5	144.7	42.3	43.2	48.9	(24.2)	33.3	95.8
FME	4.4	25.1	51.1	6.5	6.8	7.2	2.1	(18.3)	(43.9)
DIRECT MARKETING	5.1	7.3	14.6	5.7	6.4	6.6	0.6	(0.9)	(8.0)
INDIRECT MARKETING	4.6	7.2	13.2	6.8	6.4	6.8	2.2	(0.8)	(6.4)
G&A	1.8	12.9	24.6	0.3	0.3	0.3	(1.5)	(12.6)	(24.3)
TOTAL EXPENSES	11.5	27.4	52.4	12.8	13.1	13.7	1.3	(14.3)	(38.7)
IFO ZPT Acquisition					50.0	60.0		(50.0)	(60.0)
INCOME FROM OPERATIONS	2.2	24.0	41.2	23.0	73.3	88.0	(20.8)	(49.3)	(46.8)

Last year's Plan assumed the aquisition of ZPT Krakow as of January 1, 1994, compared with July 1994 in this year's Plan, and also assumed higher ZPT profitability, as well as a continuation of imports of PM's international brands

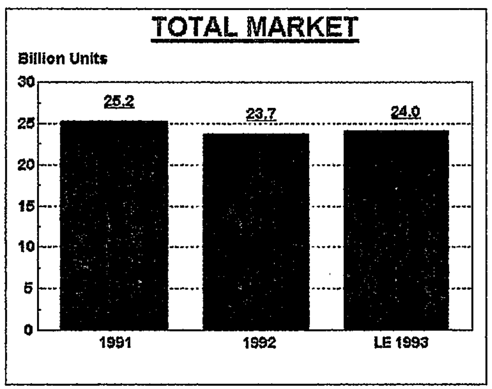
HUNGARY

KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	24.0	25.0	1.4
PM Unit Volume (Bio)	4.2	8.6	27.0
PM Market Share (%)	17.4	34.2	16.8 pts
IFO ($ Mio)	2.9	13.9	68.1

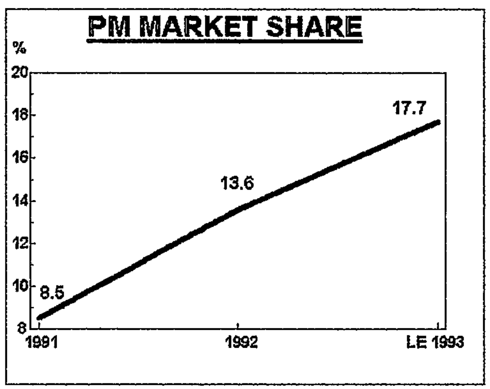
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	0.7	1.0	12.6	3.1	4.0	0.9
Multifilter	1.5	1.8	6.3	6.2	7.0	0.8
Helikon	1.6	2.3	12.9	6.8	9.2	2.4
Toldi	0.3	2.0	88.2	1.3	8.0	6.7
Other	0.1	1.5	100.0+	0.3	6.2	5.9

MARKET SITUATION

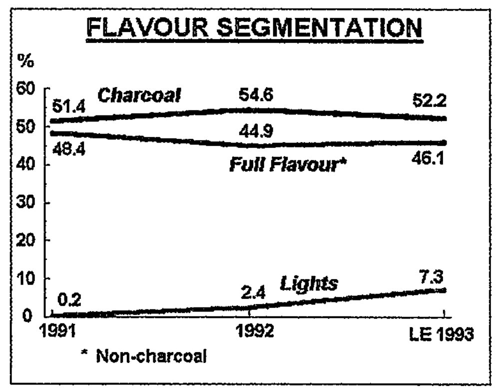
- The total market at 24 billion in 1993 is below its 26 billion peak in 1990 due to contraction of the economy during an economic transition period. The economy is expected to improve from 1994 onwards.
- PM/Egri's share has increased from 8.5% in 1991 to an estimated 17.7% in 1993 due mainly to increased volumes of Multifilter and Helikon.
- PM/Egri brands are gaining share despite strong dominant competitors and marketing restrictions.
- More than 50% of the market is charcoal filter cigarettes. The major charcoal filter brands are Sopianae manufactured by BAT, and Multifilter and Helikon manufactured by PM.



TOTAL MARKET



PM MARKET SHARE



FLAVOUR SEGMENTATION

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- PM created the Light segment with the launch of Marlboro Lights in 1990, which has been followed by Multifilter, Helikon, Sopianae, Toldi, and Symphonia Light products. Most Light products are charcoal filter.
- Low price brands currently represent 89% of the market. Competitor brands dominate the low price segment. PM has begun to increase segment share with improvements and line extensions to the existing Helikon brand, and the launch of the new brand, Toldi.
- Volume gains in the mid price segment, which was created by repositioning Multifilter at a lower price in 1991, have been achieved through further Multifilter price decreases.

KEY ISSUES AND ACTION PLANS

Penetration of the Low Price Segment

- Under the terms of the Egri acquisition PM agreed to cease production in 1994 of the Sopianae brand which is now owned by BAT. Egri ceased production of Symphonia which is owned by Reemtsma in 1992. PM needs to develop its own brands to increase share in this segment and to utilise Egri's production capacity.
- 90% of the low price segment consists of two high volume brands, Sopianae and Symphonia.
- Toldi was launched in October 1993 targeted at Symphonia smokers.
- The Plan objectives are to:
  - Continue to introduce new products in the low price segment.
  - Line extend Helikon Lights in the menthol segment.
  - Increase prices on a basis which narrows price gaps between premium, mid-price, and low price segments.
  - Reduce production costs and boost efficiencies in production of low price cigarettes.

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Volume Mix

- PM has a dominant share in the premium and medium price segments which currently represent an 11% share of the total market.
- The Lights segment, which represents approximately a 7% share, will be developed further.
- Plan objectives are to:
  - Increase premium and mid price segment volume by reducing the price gaps between the premium, mid price and low price segments.
  - There will be no price increase in Marlboro in 1994, and price increases thereafter will not exceed inflation. Marlboro's last price increase was in August, 1993.
  - Price increase for Multifilter will be less than inflation in 1994 and will be in line with inflation thereafter.
  - Price increases for domestic brands will be less than inflation in 1994 but will exceed inflation in 1995 in line with projected competition prices.

HUF PER PACK	BASE PRICE (31/12/93)	1994	1995	1996
MAJOR PM BRANDS				
Marlboro	130	130	158	177
Multifilter	87	90	114	127
Helikon	65	71	88	98
Toldi	59	65	83	93
MAJOR COMPETITOR BRANDS				
Sopianae	64	70	88	98
Symphonia	59	65	83	93
Inflation (%)	20	20	15	12

2500065311

- Lobby to increase the proportion of specific tax and to ensure that any future tax increases are applied solely to the specific component at a rate which does not exceed inflation. In addition seek reductions of the level of import duties on leaf and the introduction of a significant minimum specific import duty on finished cigarette products.
- Lobby for better border controls of illegal imports following the introduction of tax stickers.
- Line extend Marlboro into Lights Menthol, and Multifilter into Extra Lights.

Advertising Restrictions

- Current advertising legislation is outdated and restrictive. Competition has taken a liberal interpretation of the law whereas PM has confined activities to POS, trade and consumer contacts and promotions.
- Clarification of the law from the government has been requested.
- The Plan objectives are to:
  - Continue lobbying for clarification of the existing law.
  - Achieve more liberal legislation by end 1994 after the parliamentary elections.
  - Expand Egri's sales and merchandising force to increase market coverage and intensify direct consumer contact.

Distribution

- Consolidation of the distribution trade will create the opportunity to rationalise the private distributor network.
- The Plan objectives are to:
  - Streamline the existing portfolio of private distributors.
  - Enter food distribution channels to improve coverage in rural areas.
  - Introduce computerised sales and stock information for key distributors.
  - Develop key account programmes and supply directly to key accounts.

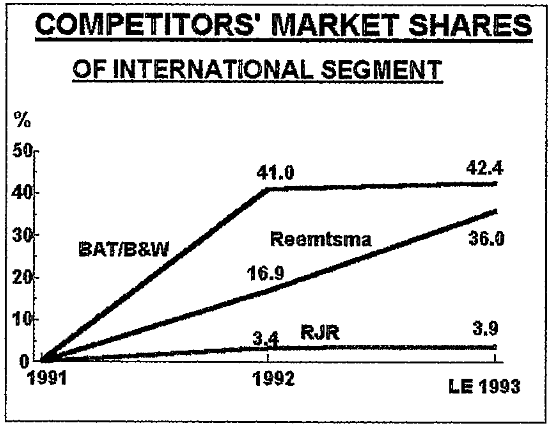
Competition

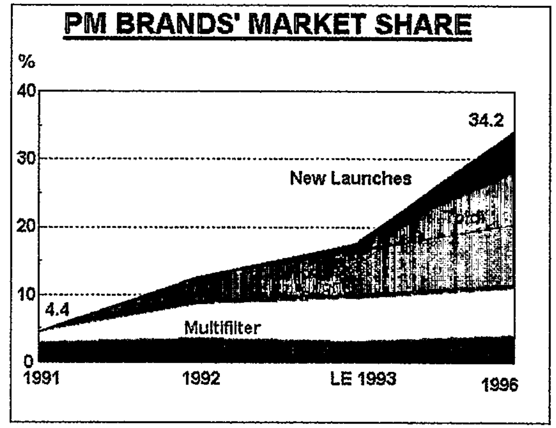
- The market is dominated by BAT and Reemtsma due to the high volume of their low price brands Sopianae and Symphonia. Sopianae has lost 6 share points in 1993, but Symphonia has gained share slightly due to its low price.

- PM has more than 90% share of the international segment which includes Marlboro in the premium international segment and Multifilter in the mid-price international segment. Competitors in the international segment are mainly low volume premium brands such as Camel and West.

TOP 10 BRANDS MARKET SHARE (%)

	1991	1992	LE 1993
Sopianae	47.0	47.7	41.7
Symphonia	34.5	34.9	36.0
Helikon	2.1	4.1	7.1
Multifilter	1.7	5.0	6.7
Marlboro	2.7	3.5	3.4
Kossuth	3.3	1.4	1.6
Munkas	3.8	1.4	1.5
Romanc	1.2	0.6	0.6
Toldi	-	-	0.4
Camel	0.2	0.1	0.2





Brand Strategies

- Marlboro Red's share has declined slightly due to the price gap with lower price segments, the low level of consumer disposable income, and illegal imports.

- Multifilter is gaining share due to a narrowing of the price gap with the low price segment, and the Extra Lights line extension.

- Helikon is gaining share as it offers an attractive alternative to Sopianae, and due to its Lights line extension.

- Toldi and Toldi Lights have been targeted against the low price Symphonia.

2500065313

- For *Marlboro* we will:
  - Launch Marlboro Lights KS and 100's Box in 1994.
  - Launch Marlboro Lights Menthol KS Box in 1994.
  - Benefit from improved border controls of international brand imports.
  - Provide increased marketing support for existing products and new launches.
- For *Multifilter* we will:
  - Launch Multifilter Extra Lights 100's in 1994.
  - Provide increased marketing support for existing products and the new launch.
- For *Helikon* we will:
  - Launch Helikon Lights Menthol KS Soft in 1994.
  - Provide increased marketing support for existing products and new launch.
- For *Toldi* we will:
  - Maintain prices in line with Symphonia.
  - Provide increased marketing support.
- ***New brands***
  - Launch a new local brand in 1995 to fight Sopianae.
  - Launch an additional new brand in 1996 to reinforce PM's presence in the low price segment.

UPSIDE/DOWNSIDE

	1994		1995		1996	
	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
Higher than expected 1993 price increases, partly offset by faster currency devaluation and lower prices for 1994 and thereafter.	-	0.7	(1.6)	-	-	(1.8)
Decreased market share growth in the low price segment	(900)	(1.1)	(900)	(1.9)	(1,000)	(2.2)
Market share decreased to: (%)	21.6		24.5		30.4	

HUNGARY - INCOME STATEMENT
($ 000)

					CAG %	($ PER 000)				CAG %
	LE 1993	OB 1994	1995	1996	LE 93-96	LE 1993	OB 1994	1995	1996	LE 93-96
Cig. Volume (Millions)	4,199.0	6,133.0	6,900.0	8,620.0	27.09%					
Net Operating Revenues	56,819	70,228	76,364	92,047	17.45%	13.53	11.45	11.07	10.68	(7.59)%
Std Variable Cost	36,664	47,906	44,118	54,724	(14.28)%	8.73	7.81	6.39	6.35	10.08%
SVC Deviations	4	(3,514)	1	1	37.00%	0.00	(0.57)	0.00	0.00	50.43%
LIFO	125	155	162	185	(13.96)%	0.03	0.03	0.02	0.02	10.33%
Marginal Contribution	20,026	25,681	32,083	37,137	22.86%	4.77	4.19	4.65	4.31	(3.33)%
Direct Marketing	4,025	4,150	5,973	7,087	(20.75)%	0.96	0.68	0.87	0.82	4.99%
Office Expenses	1,809	2,700	2,770	2,993	(18.27)%	0.43	0.44	0.40	0.35	6.94%
Other Indirect Marketing	663	534	499	493	9.40%	0.16	0.09	0.07	0.06	28.72%
Controllable Margin	13,529	18,297	22,841	26,564	25.22%	3.22	2.98	3.31	3.08	(1.47)%
Alloc. Office Expenses	491	400	353	442	3.44%	0.12	0.07	0.05	0.05	24.03%
Fixed Manufacturing Exp.	6,230	6,820	7,495	7,760	(7.59)%	1.48	1.11	1.09	0.90	15.34%
General & Administrative	3,873	4,623	4,382	4,414	(4.45)%	0.92	0.75	0.64	0.51	17.81%
Income from Operations	2,935	6,454	10,611	13,948	68.13%	0.70	1.05	1.54	1.62	32.29%

2500065316

HUNGARY - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	23.60	24.00	24.50	24.50	25.00					
Marlboro Red	0.80	0.70	0.80	0.70	0.70	3.3	2.9	3.1	2.7	2.6
Marlboro Lights	-	-	0.10	0.20	0.30	0.2	0.2	0.5	1.0	1.4
TOTAL MARLBORO	0.80	0.70	0.90	0.90	1.00	3.5	3.1	3.6	3.7	4.0
Multifilter	1.20	1.50	1.80	1.60	1.80	5.0	6.2	7.3	6.7	7.0
Helikon	1.00	1.60	2.00	2.20	2.30	4.1	6.8	8.2	9.0	9.2
Toldi	-	0.30	1.40	1.80	2.00	-	1.3	5.7	7.3	8.0
New Local Brands	0.10	-	-	0.30	1.50	0.7	-	-	1.2	6.0
ATW Brands	0.10	0.10	0.10	0.10	-	0.3	0.3	0.3	0.2	0.2
TOTAL PM / EGRI	3.20	4.20	6.20	6.90	8.60	13.6	17.7	25.1	28.1	34.4

HUNGARY - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris / Egri / ATW	13.6	17.7	25.1	28.1	34.4
BAT / Pecs	47.9	42.4	38.8	33.1	30.0
Reemtsma / Debrecen	35.1	36.0	32.2	33.1	29.2
RJR / Seita / Sato	3.4	3.9	3.9	5.7	6.4
	100.0	100.0	100.0	100.0	100.0

2500065317

HUNGARY - NEW BRAND PROFILES

MARLBORO LIGHTS 100 BOX	OB 1994	1995	1996
Launch Date: March, 1994			
Unit Volume (Millions)	30	60	90
Market Share (%)	0.1	0.2	0.4
Retail Price - Year End (HUF/Pack)	135	163	183
Net Ex-factory Price - Year Average ($/000)	21.28	20.70	20.90
Marginal Contribution - Year Average ($/000)	5.50	6.77	6.67

Rationale

Re-launch Marlboro Lights as an improved product, and line-extend the brand into box pack, to meet consumer preference.

Direct Marketing included in brand family DME

MARLBORO LIGHTS MENTHOL KS BOX	OB 1994	1995	1996
Launch Date: March, 1994			
Unit Volume (Millions)	20	50	80
Market Share (%)	0.1	0.2	0.3
Retail Price - Year End (HUF/Pack)	130	158	177
Net Ex-factory Price - Year Average ($/000)	20.23	19.85	20.00
Marginal Contribution - Year Average ($/000)	8.00	8.80	8.58

Rationale

Capitalise on the emerging Menthol segment, and capture volume from illegal imports when banderoles are introduced.

Direct Marketing included in brand family DME

HELIKON LIGHTS MENTHOL KS SOFT	OB 1994	1995	1996
Launch Date: February, 1994			
Unit Volume (Millions)	80	100	110
Market Share (%)	0.3	0.4	0.4
Retail Price - Year End (HUF/Pack)	71	88	98
Net Ex-factory Price - Year Average ($/000)	7.53	8.02	8.06
Marginal Contribution - Year Average ($/000)	1.49	2.96	2.95

Rationale

Capitalise on the success of Helikon Lights to capture volume from illegal imports when banderoles are introduced.

Direct Marketing included in brand family DME

HUNGARY - NEW BRAND PROFILES

MULTIFILTER EXTRA LIGHTS 100	OB 1994	1995	1996
Launch Date: May, 1994			
Unit Volume (Millions)	80	100	100
Market Share (%)	0.3	0.4	0.2
Retail Price - Year End (HUF/Pack)	95	119	133
Net Ex-factory Price - Year Average ($/000)	12.87	13.31	13.35
Marginal Contribution - Year Average ($/000)	4.11	4.16	4.06

Rationale

Capitalise on the growth of the Lights category and on the success of Multifilter Extra Lights KS Soft to increase segment share.

Direct Marketing included in brand family DME

NEW BRAND 1	OB 1994	1995	1996
Launch Date: April, 1995			
Unit Volume (Millions)		300	1,200
Market Share (%)		1.2	4.8
Retail Price - Year End (HUF/Pack)		88	98
Net Ex-factory Price - Year Average ($/000)		8.01	8.06
Marginal Contribution - Year Average ($/000)		3.27	2.72

Rationale

Reinforce the presence in the low price segment by targeting Sopianae smokers.

NEW BRAND 2	OB 1994	1995	1996
Launch Date: April, 1996			
Unit Volume (Millions)			300
Market Share (%)			1.2
Retail Price - Year End (HUF/Pack)			98
Net Ex-factory Price - Year Average ($/000)			8.01
Marginal Contribution - Year Average ($/000)			2.72

Rationale

Reinforce the presence in the low price segment.

2500065319

HUNGARY - MARLBORO PRICE STRUCTURE

HUF PER 000 CIGARETTES	BASE PRICE (31/12/93)	INCREASES 1994	1995	1996	END PRICE (31/12/96)
MARLBORO RED KS					
Manufacturer	2,333	(113)	528	331	3,079
Taxes	3,387	113	704	505	4,709
Trade	780	-	168	114	1,062
Total Price Increase		-	1,400	950	
Ending Retail Price					
- HUF per 000	6,500	6,500	7,900	8,850	
- HUF per Pack	130	130	158	177	
Date of Increase		-	Jan - July	Jan - July	
Marginal Contribution (Average) - $ per 000		8.82	8.80	8.58	
Exchange Rate (Average)		107.31	135.00	150.00	
Net Ex-factory Price (Average) $/000		20.23	19.85	20.00	
Inflation (%)		20	15	12	
Specific Element (HUF / 000)		1,090	1,250	1,400	

2500065320

HUNGARY - COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	4.2	6.1	6.9	4.2	5.5	6.8	-	0.6	0.1
OPERATING REVENUES	56.8	70.2	76.4	61.4	77.8	96.4	(4.6)	(7.6)	(20.0)
MARGINAL CONTRIBUTION	20.0	25.7	32.1	24.4	31.8	40.8	(4.4)	(6.1)	(8.7)
FME	6.2	6.8	7.5	7.3	7.4	7.5	1.1	0.6	-
DIRECT MARKETING	4.0	4.2	6.0	3.3	5.3	6.9	(0.7)	1.1	0.9
INDIRECT MARKETING	3.0	3.6	3.6	4.0	4.3	4.4	1.0	0.7	0.8
G&A	3.9	4.6	4.4	1.7	1.7	1.7	(2.2)	(2.9)	(2.7)
TOTAL EXPENSES	10.9	12.4	14.0	9.0	11.3	13.0	(1.9)	(1.1)	(1.0)
INCOME FROM OPERATIONS	2.9	6.5	10.6	8.1	13.1	20.3	(5.2)	(6.6)	(9.7)

The negative IFO variance is due to:

- a greater devaluation of the Forint in this year's Plan
- adverse volume mix due to higher sales of Multifilter and local brands at the expense of Marlboro.

2500065321

CENTRAL EUROPE SOUTH
VOLUME AND INCOME SUMMARY

		VOLUME (MIO)				
		LE 1993	OB 1994	1995	1996	C.A.G. % LE93 - 96
TOTAL MARKET (BIO)		39.2	39.2	39.2	39.2	-
PM VOLUME (MIO)						
SLOVENIA	Domestic Exports	350	500	560	630	
	Duty Free	740	820	860	900	
	Total	1,090	1,320	1,420	1,530	
CROATIA	Domestic License	-	350	730	1,150	
	Duty Free	200	240	270	300	
	Total	200	590	1,000	1,450	
MACEDONIA	Domestic Exports	600	650	700	800	
	Duty Free	130	150	180	200	
	Total	730	800	880	1,000	
BOSNIA	Domestic Exports	50	80	100	120	
ALBANIA	Domestic Exports	120	200	270	330	
	Duty Free	40	20	30	40	
	Total	160	220	300	370	
TOTAL	Domestic Exports	1,120	1,780	2,360	3,030	
	Duty Free	1,110	1,230	1,340	1,440	
	Total	2,230	3,010	3,700	4,470	26.1
PM IFO ($ MIO)	Domestic	6.7	10.9	15.0	19.4	
	Duty Free	20.5	24.8	29.7	31.8	
	Total	27.2	35.7	44.7	51.2	23.5

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BULGARIA AND ROMANIA
VOLUME AND INCOME SUMMARY

	VOLUME (MIO)				
	LE 1993	OB 1994	1995	1996	C.A.G. % LE93 - 96
BULGARIA					
TOTAL MARKET (BIO)	19.4	19.4	19.4	19.4	-
PM VOLUME (MIO)					
Domestic License	50	250	1,000	1,400	
Domestic Exports	1,756	2,500	2,420	2,600	
Duty Free	311	375	485	525	
Total	2,117	3,125	3,905	4,525	28.8
PM IFO ($ MIO)	12.0	16.9	17.9	20.1	18.6
ROMANIA					
TOTAL MARKET (BIO)	34.0	34.0	34.0	34.0	-
PM VOLUME (MIO)					
Domestic Exports	3,814	4,500	4,690	4,990	
Duty Free	79	95	127	141	
Total	3,893	4,595	4,817	5,131	9.6
PM IFO ($ MIO)	4.6	11.3	13.0	15.0	48.9

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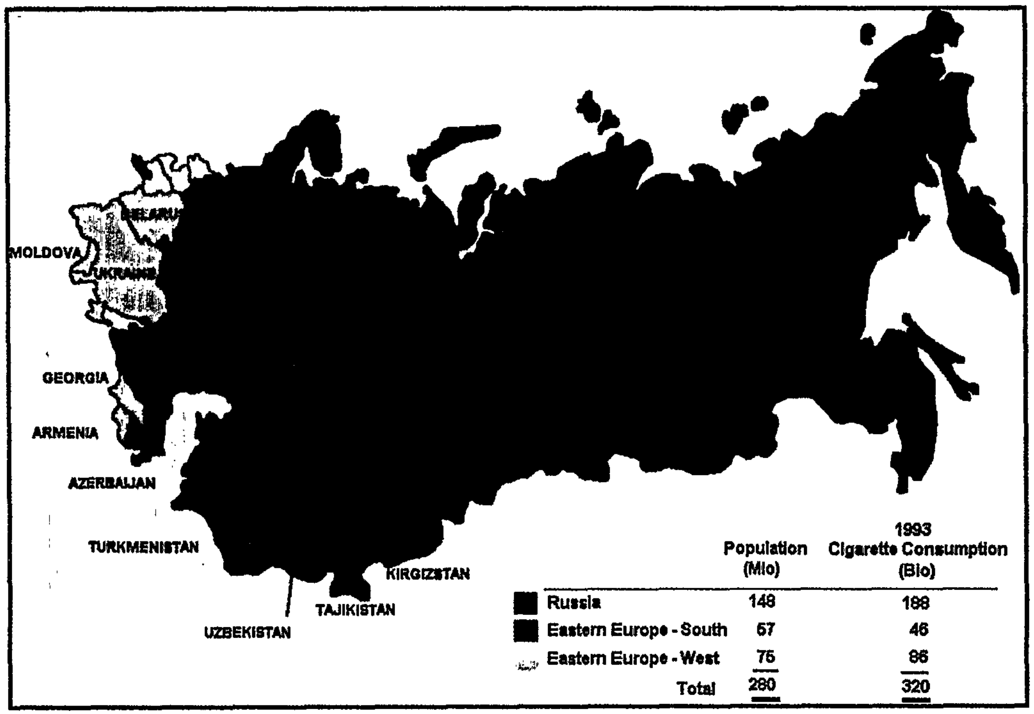
Eastern Europe

EASTERN EUROPE

KEY FINANCIALS			
	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	320.0	355.0	3.5
PM Unit Volume (Bio)	13.1	55.5	61.8
PM Market Share (%)	4.1	15.6	11.5 pts
IFO ($ Mio)	31.1	80.0	37.0

VOLUME AND MARKET SHARE						
	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	5.7	11.0	24.6	1.8	3.1	1.3
L+M	2.2	6.0	39.4	0.7	1.7	1.0
Bond St.	3.7	7.4	26.1	1.1	2.0	0.9
Other Int'l	1.5	2.8	24.0	0.5	0.8	0.3
Local Brands	-	28.3	-	-	8.0	8.0



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MARKET SITUATION

- The countries of the former Soviet Union continue to diverge politically and economically, although high inflation, low disposable income, weak local currencies and hard currency shortages are common to all.

- Parliamentary elections in Russia in December 1993 may resolve the current chaos as to the allocation of responsibilities within the government, and improve political stability. Economic progress is likely to be erratic, but the market potential will continue to attract western investment.

- Kazakhstan is the largest country in Eastern Europe South, and the most politically stable of the former Soviet Republics. Its natural resources and the government's commitment to a market based economy have made it a major target for foreign investors. The recent introduction of its own currency should improve the medium term economic outlook.

- Ukraine is the largest country in Eastern Europe West, and the second largest cigarette market in the former Soviet Union. The political situation is highly unstable and the economy in dire straits. Its strategic location and nuclear weapons should guarantee support from the West, but a return to the "protective umbrella" of Russia, or even a split between East and West Ukraine are possibilities.

- All countries continue to suffer from cigarette shortages, with total consumption declining in 1993 from 345 billion to 320 billion, and local production declining from 264 billion to 246 billion.

- Continuing shortages and opportunities arising from privatisation have enabled both PM and our major competitors to expand their market presence through exports and acquisitions of local factories.

	PM	RJR	BAT	Rothmans	Reemtsma
Local Manufacturing	St. Petersburg (Russia) Samara (Russia) Krasnodar (Russia) Almaty (Kazakhstan)	St. Petersburg (Russia) Kremenchug (Ukraine)	Priluki (Ukraine)	St. Petersburg (Russia)	Cherkassy (Ukraine)
1992 Exports (Bio)	8.8	7.0	2.5	2.5	1.0
1993 Exports (Bio)	12.9	9.0	5.0	3.0	0.8
Main Export Brands	Marlboro, L+M, Bond St.	Magna, Camel, Winston	HB, Lucky Strike	Rothmans, Golden American	West

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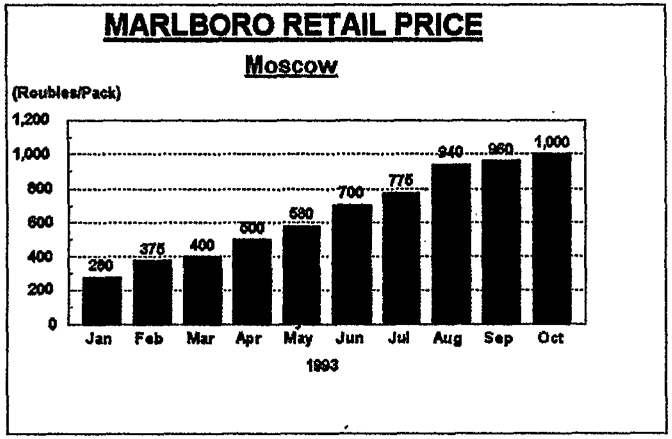
KEY ISSUES AND ACTION PLANS

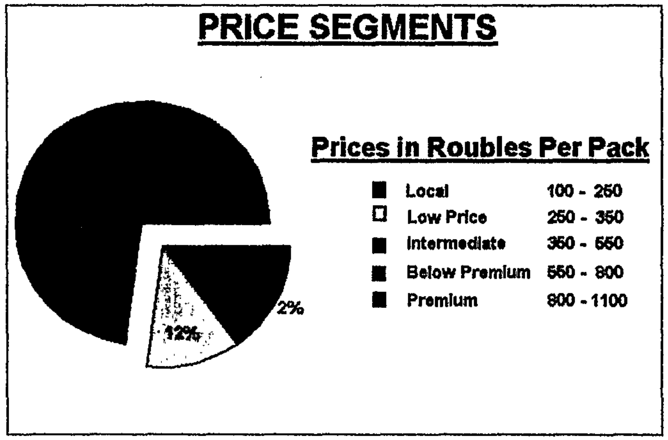
Taxation, Import Duties and Pricing

- During 1993, the Russian government increased excise tax on imported cigarettes from zero to 100% of the CIP price, introduced VAT on imports of 20%, and increased import duties from 5% to 15%. Further increases on import duties are probable.

- The Russian excise tax and duty structure, which tends to be common to all former Soviet Republics, (although tax levels may differ), is detrimental to both the import and local manufacture of quality international brands,

- Excise tax and duty increases, coupled with devaluing local currencies and soaring inflation, limit our pricing flexibility, and push up the retail price of our imported brands; imported Marlboro is about 10 times more expensive than local brands which account for 73% of total consumption.





- The Plan objectives are to:

  – Actively participate in government task forces to propose appropriate modifications to the current excise tax and import duty structures and levels.

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- Ensure that we remain competitive in all price segments of the market, by being flexible on export pricing, expanding the distribution of both our international and acquired local brands and by launching new brands as appropriate.

Advertising Restrictions

- The Russian Parliament passed legislation in 1993 regulating advertising, however, the interpretation of the law is unclear, and no implementation of the legislation has been enacted.
- The lack of existing legislation in Eastern Europe makes the Area attractive to anti-tobacco groups seeking to introduce prohibitive legislation.
- The Plan objectives are to:
  - Create coalitions to disseminate objective information and to commission independent studies quantifying the economic impact of advertising restrictions.
  - Familiarise federal and regional government agencies and officials with standards in other countries.
  - Propose appropriate, reasonable legislation.

Logistics, Distribution and Sales Force

- The sheer size of Eastern Europe, together with its poor infrastructure and constantly changing regulations, require frequent changes to shipping methods. Security problems and increasing customs controls also create major logistical hazards.
- Within Eastern Europe, the distribution channels for cigarettes are unstructured and complicated. Although we currently do business with 48 importers, 5 of them account for 80% of our total export business.
- The Plan objectives are to:
  - Prevent disruption in supply of our international brands by continuously exploring shipping alternatives, setting up a bonded warehouse in Moscow in 1994, and in other parts of Eastern Europe over the Plan period.

- Expand our customer base by identifying additional, financially strong importers and support their growth.
- Complete a detailed retail and wholesale census in key cities, quantity the importance of each distribution channel and work with key customers to make distribution more efficient.
- Establish sales forces to ensure availability of our products and to increase our visibility in the market. Priority will be given to Moscow, St. Petersburg and Almaty.

<u>Integration of Local Factories and PM Organisation</u>

- Local factories managed by PM will manufacture 33.2 billion units in 1996, and headcount at these factories will total 3,064.

Factory	Volume (Bio)	Headcount
Krasnodar	8.5	977
St. Petersburg	2.0	66
Samara (License)	0.5	1
Almaty	16.2	1,680
Kharkov	6.0	340
Total	33.2	3,064

- PM headcount in field functions will increase from 48 in 1993 to 449 in 1996.
- In addition to existing PM offices in Moscow and Almaty, a new office will be opened in Kiev (Ukraine) in 1994, and additional offices are planned for Tashkent (Uzbekistan) and Minsk (Belarus).
- Our plans to integrate the local factories into the PM organisation are detailed in the Regional Operations Plan.
- The major emphasis at both factory and field operations will be on training. The HQ Human Resources Department in Lausanne has been reorganised to provide better focus on training and support for field operations, and current training programmes will be refined and expanded throughout the Plan period.

New Projects

- The Plan assumes that PM will have control of the Kharkov factory in the Ukraine as of July, 1995.
- The Grodno factory in Belarus is a potential acquisition, but is not included in the Plan. It is the only factory in Belarus, a country with a market potential of 18 - 20 billion units. Our major competitors have all shown interest. It is not currently a priority for us, but could become so during the Plan period.

Brand Strategies

- 1993 marketing activities concentrated on gaining awareness for Marlboro, through exclusive Marlboro kiosks, billboard campaigns and point-of-sale material, and building image through TV advertising and illuminated signs.
- Marlboro will continue to be the focus of our marketing efforts, particularly in Moscow, St. Petersburg and Almaty. We will:
  - Enhance Marlboro's outdoor visibility and presence with rooftop signs or painted walls, billboards and illuminated signs in bus-stops or metro stations.
  - Develop a permanent brand and image presence through POSM in priority locations, and continue TV advertising for as long as possible.
  - Hold one major promotion per year, supported by press, media and billboards.
- L&M will be positioned as an affordable, high quality American blend cigarette, by using the "Route 66" campaign on TV and billboards.
- Bond St. will be positioned as the best quality American blend cigarette in the soft pack, value segment. Billboards and newspapers will be used to launch a new image campaign currently being developed.
- The initial focus on local brands will be to improve their quality and consistency, concentrating on brands with high consumer awareness and loyalty, such as Kazakhstanskie and Medeo. Product development programmes for new local brands will only be finalised after further research into local consumer demands and tastes.

UPSIDE / DOWNSIDE

The Plan assumes no increases in export prices in 1994, and increases of 2% and 3% in 1995 and 1996, respectively. Price increases of 1% and 1½% would result in a lower IFO of $3.4 million in 1995 and $8.3 million in 1996. Increases of 3% and 4% would increase IFO by $3.4 million in 1995 and $5.6 million in 1996.

The Plan assumes export sales of Marlboro of 8.0 billion in 1994, 7.6 billion in 1995, and 7.7 billion in 1996. If a severe rouble devaluation, or higher duties and/or excise taxes result in 2 billion fewer Marlboro each year, but 2 billion more Bond St., the negative impact on IFO would be $18.4 million in 1994, $18.9 million in 1995, and $19.3 million in 1996. If we were to sell 2 billion more Marlboro, and 2 billion less Bond St., IFO would be positively impacted in the same proportions.

EASTERN EUROPE - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	13,072.0	32,220.0	44,880.0	55,525.0	61.95%					
Net Operating Revenues	167,922	270,093	352,256	430,545	36.87%	12.85	8.38	7.85	7.75	(15.49)%
Std Variable Cost	88,628	162,049	222,591	278,242	(46.43)%	6.78	5.03	4.96	5.01	9.59%
SVC Deviations	(453)	325	314	322	N.A.	(0.03)	0.01	0.01	0.01	N.A.
LIFO	3,284	3,212	4,101	4,977	(14.87)%	0.25	0.10	0.09	0.09	29.07%
Marginal Contribution	76,463	104,507	125,250	147,004	24.34%	5.85	3.24	2.79	2.65	(23.22)%
Direct Marketing	5,792	7,795	13,266	15,873	(39.94)%	0.44	0.24	0.30	0.29	13.59%
Office Expenses	-	-	-	-		-	-	-	-	
Other Indirect Marketing	2,080	3,755	2,555	3,455	(18.43)%	0.16	0.12	0.06	0.06	26.87%
Controllable Margin	68,591	92,957	109,429	127,676	23.01%	5.25	2.89	2.44	2.30	(24.04)%
Alloc. Office Expenses	12,168	15,417	19,914	22,372	(22.51)%	0.93	0.48	0.44	0.40	24.36%
Fixed Manufacturing Exp.	25,255	22,546	23,501	25,307	(0.07)%	1.93	0.70	0.52	0.46	38.21%
General & Administrative	65	-	-	-	100.00%	0.00	-	-	-	100.00%
Income from Operations	31,103	54,994	66,014	79,997	37.01%	2.38	1.71	1.47	1.44	(15.40)%

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EASTERN EUROPE - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	345.00	320.00	328.00	340.00	355.00					
Marlboro Red	5.46	5.17	7.70	8.89	9.82	1.6	1.6	2.3	2.6	2.8
Marlboro Lights	0.07	0.31	0.52	0.73	0.86	-	0.1	0.2	0.2	0.2
Marlboro Menthol	0.01	0.20	0.25	0.28	0.32	-	0.1	0.1	0.1	0.1
TOTAL MARLBORO	5.54	5.68	8.47	9.90	11.00	1.6	1.8	2.6	2.9	3.1
L&M	0.16	2.22	3.50	4.84	6.01	-	0.7	1.1	1.4	1.7
Bond Street	1.40	3.68	5.50	6.29	7.38	0.4	1.1	1.7	1.8	2.0
Other International	1.65	1.49	1.00	1.95	2.84	0.5	0.5	0.2	0.6	0.8
Local Brands	-	-	13.75	21.90	28.30	-	-	4.2	6.5	8.0
Total PM	8.75	13.07	32.22	44.88	55.53	2.5	4.1	9.8	13.2	15.6

EASTERN EUROPE - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	2.5	4.1	9.8	13.2	15.6
RJR	2.0	2.8	10.1	11.5	11.9
BAT	0.7	1.6	5.9	7.1	7.9
Rothmans	0.7	0.9	2.1	2.5	2.8
Reemtsma	0.3	0.3	2.1	2.1	2.1
Other International	17.3	13.7	12.2	12.9	13.8
Local	76.5	76.6	57.8	50.7	45.9
	100.0	100.0	100.0	100.0	100.0

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EASTERN EUROPE
COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	13.1	32.2	44.9	24.3	31.4	35.6	(11.2)	0.8	9.3
OPERATING REVENUES	167.9	270.1	352.3	299.9	348.5	408.7	(132.0)	(78.4)	(56.4)
MARGINAL CONTRIBUTION	76.5	104.5	125.3	129.6	136.4	159.6	(53.1)	(31.9)	(34.3)
FME	25.3	22.5	23.5	32.5	27.0	29.5	7.2	4.5	6.0
DIRECT MARKETING	5.8	7.8	13.3	10.0	11.1	12.0	4.2	3.3	(1.3)
INDIRECT MARKETING	14.2	19.3	22.6	15.9	20.2	23.2	1.7	0.9	0.6
G&A	0.1	-	-	1.5	2.4	2.6	1.4	2.4	2.6
TOTAL EXPENSES	20.1	27.1	35.9	27.4	33.7	37.8	7.3	6.7	2.0
INCOME FROM OPERATIONS	31.1	55.0	66.0	69.7	75.7	92.3	(38.6)	(20.8)	(26.4)

Last year's Plan assumed higher export volumes and lower local production.

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Turkey

TURKEY
VOLUME AND INCOME SUMMARY

	UNIT VOLUME (BIO)					I.F.O. ($ MIO)				
	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
Turkey Domestic	11.8	13.2	14.7	16.8	12.3	63.5	65.4	82.5	98.4	15.8
Turkey Duty Free	1.9	1.9	1.9	1.9	0.8	37.6	40.0	41.5	42.6	4.3
Turkish Cyprus	0.1	0.1	0.1	0.1	-	1.6	1.2	1.4	1.6	(2.0)
Total Area	13.8	15.2	16.7	18.8	10.9	102.7	106.6	125.3	142.5	11.5

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TURKEY DOMESTIC

KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	80.1	84.8	1.9
PM Unit Volume (Bio)	11.8	16.8	12.3
PM Market Share (%)	14.4	19.7	5.3 pts
IFO ($ Mio)	63.5	98.4	15.8

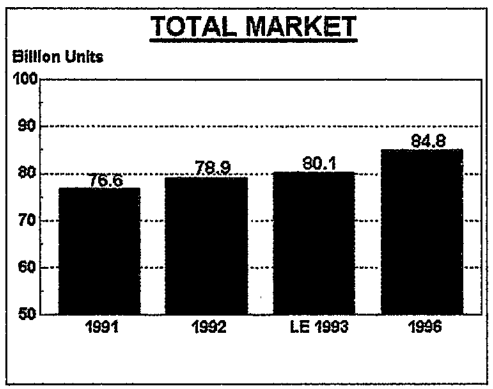
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	9.9	12.8	9.1	12.2	15.1	2.9
Parliament	1.9	2.2	4.3	2.2	2.6	0.4
Lark	-	1.3	-	-	1.5	1.5
Muratti	-	0.5	-	-	0.5	0.5

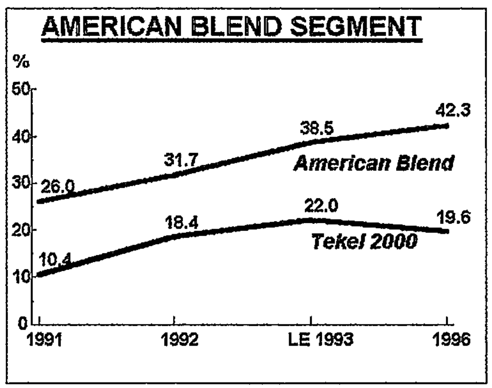
MARKET SITUATION

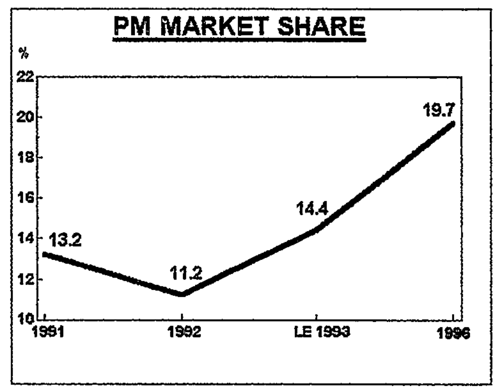
- Inflation continues to exceed 60% and is not expected to decline significantly over the Plan period. The US Dollar is projected to appreciate against the Turkish Lira in line with inflation rates.

- The total market is conservatively estimated to grow by 1.4% in 1993 to 80.1 billion, after growing by nearly 3% in 1992. Growth over the Plan period is forecast at 1.9% per annum, due to favourable demographics and assuming retail price increases in line with inflation and no growth in parallel imports.

- The American Blend segment has grown from 26.0% of the total market in 1991 to 38.5% in 1993, driven by the growth of Tekel 2000 and the recovery of PM brands. The segment is expected to grow more slowly to 42.3% of the market by 1996, as Tekel 2000 declines due to increasing competition from PM and RJR, disposable income is constrained, and Tekel protects its Oriental brands by ensuring their retail prices remain low relative to the American Blend segment.





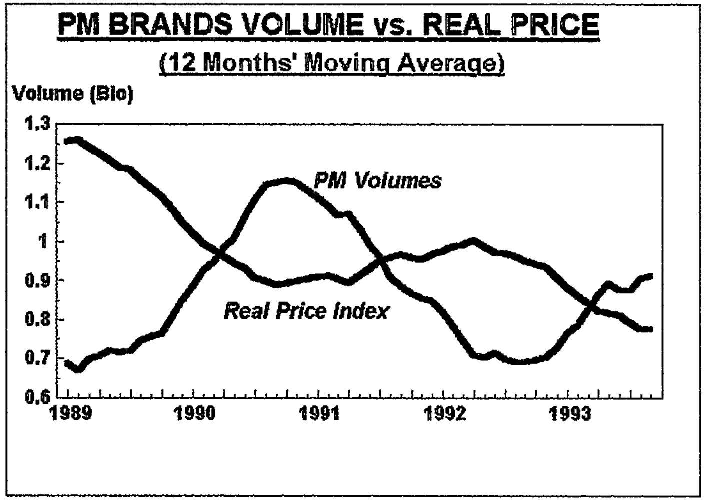


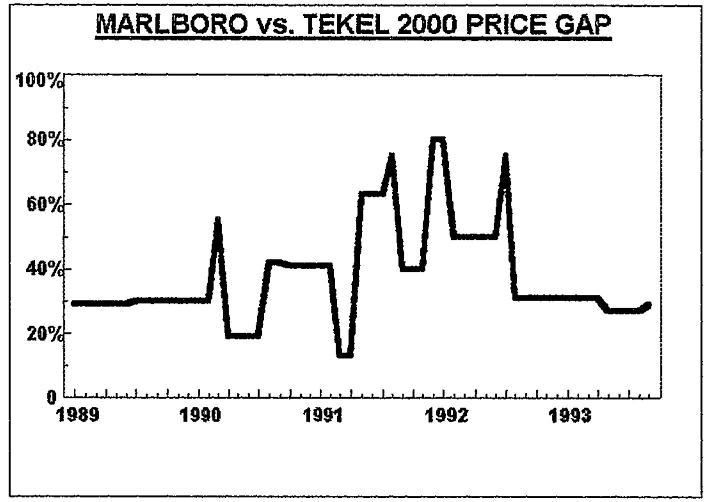
- After losing 2.0 share points in 1992, due to discriminatory pricing by Tekel, more favourable pricing has resulted in a 3.2 points' gain for PM in 1993 to 14.4%. A continuation of favourable retail prices relative to inflation, and to Tekel 2000, over the Plan period, together with new brand launches, will give PM a 19.7% share by 1996.

KEY ISSUES AND ACTION PLANS

Retail Pricing

- PM brands are extremely sensitive to changes in their "real" price versus local inflation, and to the price gap with Tekel 2000.





- Philsa qualified for pricing freedom in 1993, but recognition of this by Tekel was delayed due to changes in Ministerial responsibility for Tekel. The Plan assumes effective pricing freedom as of January, 1994.

- The Plan objectives are to keep retail price increases of PM brands in line with inflation and to keep the price gap between Marlboro 100 and Tekel 2000 in the 25 - 33% range.

- Pricing and distribution freedom will also enable Philsa to increase the price gap between Marlboro 100 and Marlboro KS to 10%, as of 1994, and to introduce Lark in 1995 as a below-premium, international brand.

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Taxation

- The government has recently announced its plans for a Special Consumer Tax (SCT), to be introduced on January 1, 1994. This will apply to about 100 products, but is subject to ratification by the Parliamentary Budgetary Committee.
- The rationale for the SCT is to provide a degree of insulation to industries most affected by the drastic reduction in import duties from the European Union and EFTA, following the proposed Customs Union in 1995, and to increase the State budget.
- For cigarettes, the proposed SCT tax is fully ad valorem at 100% of the sum of the net ex-factory price and the Veterans Fund which, along with the recently introduced VAT rate of 15%, (previously 12%), means that the tax incidence of locally produced Marlboro at today's retail price will increase from 64% to 68%.
- The SCT, however, will significantly raise the tax burden on imported brands even when the customs duty is reduced to zero.
- Our objective is to lobby for a lower level of SCT and the inclusion of a specific element in line with our earlier submissions. Equally, we will strive to maintain the higher tax burden on imported brands for as long as possible.
- As the SCT has just been announced and is still subject to ratification, and clarification, it has not been included in the Plan pricing and tax assumptions.

Distribution

- In September 1993, the PM Board approved the setting-up of Philsa's own distribution system.
- Philsa's system will consist of direct delivery in the major metropolitan areas, which account for 50% by volume of PM sales, and an exclusive wholesaler network to cover rural areas.
- The Plan assumes national implementation of the new distribution system as of September 1994.
- In addition to incremental volume and lower distribution costs, by establishing a separate distribution company, Philsa will lower the tax base for calculating the 80% Additional Tax, thereby further increasing IFO potential.

Advertising Restrictions

- An anti-smoking bill, which includes an advertising ban, is pending in the Justice Commission, but has a low government priority.
- We aim to defeat this pending legislation and introduce a self-regulatory or legal code of conduct which allows reasonable advertising and marketing freedoms.
- The industry, excluding Tekel, has submitted a voluntary marketing code of conduct, and we are mobilising allies such as publishers, advertising agencies and tobacco farmers to argue against a ban.

Sabanci Relationship

- The Sabanci Group holds 25% of Philsa, and has decreasing government influence since the death of President Ozal.
- Sabanci wants income from the investment in Philsa, but dividends are unlikely before 1998.
- Sabanci has a 10 year "put" option to sell the 25% shareholding in Philsa to PM, which expires in 2001. The selling price would be equal to the capital invested, minus dividends, plus interest at the LIBOR rate, approximately $31 million at December 1993.
- The Plan assumes no change in Philsa share ownership.

Competition

- The Plan assumes no more international companies establish local manufacturing facilities during the Plan period, although:
  - the proposed Special Consumption Tax appears to offer substantial advantages to local manufacturers over imports, even imports from the EC.
  - the current Turkish government favours privatisation, and Tekel could ultimately be included in the privatisation programme.

- RJR has an estimated primary processing capacity at Torbali of 20 billion units, and a current make/pack capacity of 4 billion, which can easily be expanded. 1993 volume however, is less than 1 billion, giving substantial excess capacity.

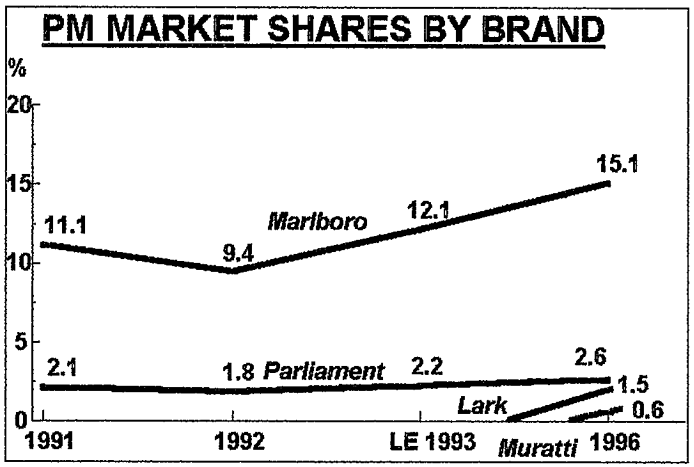
- RJR's October 1993 launch of Winston 100 Soft as a below-premium brand has not been successful, as Tekel refused to allow the brand to retail at a price competing with Tekel 2000. To grow volume, and obtain effective pricing freedom, RJR is likely to establish its own distribution system, probably through exclusive wholesalers, and potentially to launch brands such as Gold Coast, priced below Tekel 2000.

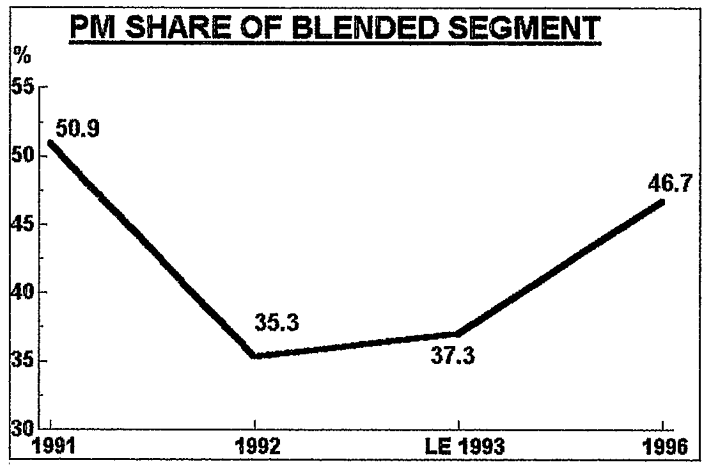
- With both PM and RJR having pricing and distribution freedom, Tekel will face increasing competition. Tekel is likely to leverage the success of Tekel 2000 100 Soft, by launching a KS Box or Soft pack version, (Tekel 2000 KS Box was launched in Turkish Cyprus in November, 1993) and could also launch better quality Oriental brands to try to stem the decline of this segment.

Brand Strategies

- Both Marlboro and Parliament regained market share and share of the blended segment in 1993, as a result of more favourable retail pricing.

- The retail pricing strategies outlined above, together with enhanced marketing activities and new launches, will enable PM to grow market share to 19.7% by 1996, and blended segment share to 46.7%.





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- For ***Marlboro***, we will:

  - Continue to focus on the Marlboro Country theme in print, outdoor and cinema advertising. Four-colour advertisements will be introduced in newspapers and week-end supplements, and outdoor advertising in key locations will be increased.
  - The roll-unit programme will be expanded at point-of-sale and in-store kiosks in key accounts will be increased.
  - Consumer promotions using Marlboro Country themes will continue, and a trade promotion to stimulate carton sales of Marlboro KS Box will be introduced.
  - Motor-sport sponsorship and target group sampling will continue, the Marlboro Classics diversification introduced in 1993 will be expanded, and Marlboro Travel introduced during the Plan period.

- For ***Parliament***:

  - The Plan assumes that Parliament will be manufactured locally as of September 1994, although this may occur earlier in 1994 if SCT proves advantageous for locally manufactured brands.
  - Advertising and packaging graphics changes will be made gradually over the Plan period to freshen the brand's image.
  - Consumer related activities and diversification initiatives will continue to focus on jazz and the cinema.

- ***Lark*** 100 Soft and KS Box (non-charcoal filter) will be introduced in May 1995 at retail prices approximately 10% below the corresponding Marlboro pack formats, to compete in the below-premium price segment, which is expected to increase in importance with the recent launch of Winston 100 Soft and the increasing price gap in Lira terms between Marlboro and Tekel 2000.

- ***Muratti*** KS Box will be launched at the beginning of 1996 to build on its popularity in the duty free market, where it has an up-scale image. The brand will be priced in the premium segment, and will be available in the KS Box format only.

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UPSIDE / DOWNSIDE

The Plan assumptions for total market growth of 1.9% per annum are conservative, based on current trends and the assumption of retail price increases in line with inflation. Growth of 2.5% per annum, with the Plan market shares, would have the following favourable impact:

1994		1995		1996	
Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
64	0.7	159	1.9	275	3.2

The implementation of the SCT in 1994, if it goes ahead as proposed, will have an impact on retail and ex-factory pricing, and should give a substantial advantage to local manufacturers over imports. As RJR and Rothmans already have local manufacturing facilities, potential volume gains for PM from other importers are small, however, the impact of SCT and of the potential privatisation of Tekel could result in more local manufacturers, increase price competition and threaten PM's share growth. PM shares of 16.7% and 18.2% in 1995 and 1996 would have the following negative impact versus the Plan.

1995		1996	
Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
(850)	(10.0)	(1,350)	(15.6)

The phased expansion of PM's Torbali facility will enable PM to participate in the privatisation of Tekel, which could have a substantial upside on volume and IFO, particularly if we were able to acquire the Tekel 2000 trademark.

Philsa is accounted for on an equity basis, as Turkey is a hyper-inflation country under US GAAP. If PM were to acquire the 25% of Philsa held by the Sabanci Group, as of January 1, 1995, IFO would decrease by $1.4 million in 1995 and increase by $0.4 million in 1996.

TURKEY DOMESTIC - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	11,812.0	13,180.0	14,750.0	16,750.0	12.35%					
Net Operating Revenues	266,764	393,435	488,568	557,705	27.87%	22.58	29.85	33.12	33.30	13.81%
Std Variable Cost	144,488	256,416	311,196	360,303	(35.61)%	12.23	19.45	21.10	21.51	(20.70)%
SVC Deviations	(8,699)	(2,125)	-	-	100.00%	(0.74)	(0.16)	-	-	100.00%
LIFO	3,757	3,482	3,821	4,114	(3.07)%	0.32	0.26	0.26	0.25	8.26%
Marginal Contribution	127,218	135,662	173,551	193,288	14.96%	10.77	10.29	11.77	11.54	2.33%
Direct Marketing	12,017	12,920	18,785	21,550	(21.49)%	1.02	0.98	1.27	1.29	(8.14)%
Office Expenses	11,592	12,127	14,534	15,298	(9.69)%	0.98	0.92	0.99	0.91	2.37%
Other Indirect Marketing	309	460	530	623	(26.33)%	0.03	0.03	0.04	0.04	(12.45)%
Controllable Margin	103,300	110,155	139,702	155,817	14.68%	8.75	8.36	9.47	9.30	2.08%
Alloc. Office Expenses	-	-	-	-		-	-	-	-	
Fixed Manufacturing Exp.	32,235	32,890	37,144	38,018	(5.65)%	2.73	2.50	2.52	2.27	5.96%
General & Administrative	7,585	11,856	20,111	19,425	(36.82)%	0.64	0.90	1.36	1.16	(21.78)%
Income from Operations	63,480	65,409	82,447	98,374	15.72%	5.37	4.96	5.59	5.87	3.00%

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TURKEY DOMESTIC - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)*				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	78.98	80.07	81.67	83.28	84.84					
Marlboro 100	6.71	9.18	10.05	10.85	11.30	9.1	11.4	12.2	13.0	13.3
Marlboro KS	0.10	0.43	0.78	0.90	1.10	0.1	0.5	0.9	1.1	1.3
Marlboro Lights 100	0.17	0.26	0.30	0.35	0.40	0.2	0.3	0.3	0.4	0.5
TOTAL MARLBORO	6.98	9.87	11.13	12.10	12.80	9.4	12.2	13.4	14.5	15.1
Parliament	1.30	1.94	2.05	2.10	2.20	1.8	2.2	2.4	2.5	2.6
Lark 100's	-	-	-	0.45	1.00	-	-	-	0.5	1.2
Lark KS	-	-	-	0.10	0.25	-	-	-	0.1	0.3
Muratti KS	-	-	-	-	0.50	-	-	-	-	0.5
TOTAL PM	8.28	11.81	13.18	14.75	16.75	11.2	14.4	15.8	17.6	19.7

* Reflects in-market sales

TURKEY DOMESTIC - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	11.2	14.4	15.8	17.6	19.7
Tekel	86.7	83.6	81.8	79.6	77.3
RJR	0.7	0.9	1.1	1.3	1.5
BAT	0.2	0.2	0.3	0.3	0.3
Rothmans	1.0	0.7	0.8	0.9	0.9
Others	0.2	0.2	0.2	0.3	0.3
	100.0	100.0	100.0	100.0	100.0

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TURKEY DOMESTIC - NEW BRAND PROFILES

LARK 100's	OB 1994	1995	1996
Launch Date: May, 1995			
Unit Volume (Millions)		450	1,000
Market Share (%)		0.5	1.2
Retail Price - Year End (TRL/Pack)		40,000	65,000
Net Ex-factory Price - Year Average ($/000)		28.98	29.01
Marginal Contribution - Year Average ($/000)(*)		11.15	10.65
Direct Marketing - Year Average ($/000)		3.79	2.28

LARK KS	OB 1994	1995	1996
Launch Date: May 1995			
Unit Volume (Millions)		100	250
Market Share (%)		0.1	0.3
Retail Price - Year End (TRL/Pack)		37,500	60,000
Net Ex-factory Price - Year Average ($/000)		27.15	26.95
Marginal Contribution - Year Average ($/000) (*)		10.67	9.98
Direct Marketing - Year Average ($/000)		3.80	2.28

Rationale

Lark 100 SP and KS Box will be introduced as below-premium price propositions between Tekel 2000 and Marlboro 100's, and at the same price as Winston.

(*) Before allocation of distribution cost

MURATTI KS	OB 1994	1995	1996
Launch Date: January, 1996			
Unit Volume (Millions)			500
Market Share (%)			0.5
Retail Price - Year End (TRL/Pack)			70,000
Net Ex-factory Price - Year Average ($/000)			31.49
Marginal Contribution - Year Average ($/000)(*)			8.95
Direct Marketing - Year Average ($/000)			2.50

Rationale

Muratti KS Box has an upscale image, and is highly popular in the duty free market

(*) Before allocation of distribution cost

TURKEY DOMESTIC - MARLBORO PRICE STRUCTURE

TRL PER 000 CIGARETTES	BASE PRICE (31/12/93)	INCREASES									END PRICE (31/12/96)
		1994			1995			1996			
		Jan/Apr	May/Aug	Sep/Dec	Jan/Apr	May/Aug	Sep/Dec	Jan/Apr	May/Aug	Sep/Dec	
MARLBORO RED 100 SOFT											
(Local Production)											
Manufacturer	382,800	42,900	107,200	229,600	68,300	100,350	98,800	208,950	204,950	202,900	1,646,750
Distribution	-	-	-	-	107,050	17,650	20,500	20,300	27,400	31,500	224,400
Taxes	444,300	45,000	121,550	36,650	97,150	117,000	115,700	240,750	237,650	235,600	1,691,350
Trade	72,900	12,100	21,250	(16,250)	(22,500)	15,000	15,000	30,000	30,000	30,000	187,500
Total Price Increase	-	100,000	250,000	250,000	250,000	250,000	250,000	500,000	500,000	500,000	
Ending Retail Price											
- TRL per 000	900,000	1,000,000	1,250,000	1,500,000	1,750,000	2,000,000	2,250,000	2,750,000	3,250,000	3,750,000	3,750,000
- TRL per Pack	18,000	20,000	25,000	30,000	35,000	40000	45,000	55,000	65,000	75,000	75,000
Date of Increase	Sep	Jan	May	Sep	Jan	May	Sep	Jan	May	Sep	
Marginal Contribution (Av)											
- $ per 000			11.09			12.63			12.68		
Exchange Rate (Av)	12,903	14,861	17,452	20,946	23,913	27,818	32,392	37,798	44,914	52,250	
Net Ex-fac. Price (Av) $/000			31.68			33.33			34.12		
Inflation (%)			65			60			60		

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TURKEY DOMESTIC
COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	11.8	13.2	14.8	12.0	13.0	14.3	(0.2)	0.2	0.5
OPERATING REVENUES	266.8	393.4	488.6	287.1	397.9	461.5	(20.3)	(4.5)	27.1
MARGINAL CONTRIBUTION	127.2	135.7	173.5	125.0	153.6	179.1	2.2	(17.9)	(5.6)
FME	32.2	32.9	37.1	33.1	34.9	39.7	0.9	2.0	2.6
DIRECT MARKETING	12.0	12.9	18.8	13.4	16.8	20.4	1.4	3.9	1.6
INDIRECT MARKETING	11.9	12.6	15.1	11.6	13.6	16.5	(0.3)	1.0	1.4
G&A	7.6	11.9	20.1	7.9	14.0	15.9	0.3	2.1	(4.2)
TOTAL EXPENSES	31.5	37.4	54.0	32.9	44.4	52.8	1.4	7.0	(1.2)
INCOME FROM OPERATIONS	63.5	65.4	82.4	59.0	74.3	86.6	4.5	(8.9)	(4.2)

The negative IFO variance in 1994 compared with last year's Plan is due to the start-up costs of the new distribution system.

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Middle East/Levant/
North Africa

MIDDLE EAST, LEVANT, NORTH AFRICA
VOLUME AND INCOME SUMMARY

	UNIT VOLUME (BIO)					I.F.O. ($ MIO)				
	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96	LE 1993	OB 1994	1995	1996	C.A.G. % LE93-96
Saudi Arabia	7.7	8.0	8.6	9.3	6.4	96.7	99.5	110.7	122.5	8.2
Kuwait	1.5	1.6	1.7	1.8	8.2	21.2	17.5	18.7	21.8	0.9
UAE	1.1	1.1	1.2	1.3	6.4	12.4	13.5	15.0	16.7	10.2
Iran	0.8	1.0	1.1	1.4	21.6	0.3	1.9	2.9	6.1	100.0+
Gulf Duty Free	1.7	2.1	2.6	3.5	26.1	2.9	5.4	7.2	12.2	61.4
Other Middle East	0.9	1.1	1.1	1.3	13.0	2.5	7.3	9.1	10.7	62.4
Total Middle East	13.7	14.9	16.3	18.6	10.9	136.0	145.1	163.6	189.9	11.8
Lebanon Domestic	3.2	2.1	2.2	2.4	(9.1)	11.0	8.1	8.5	12.2	3.5
Syria	1.0	4.0	4.3	4.8	68.4	5.8	13.7	14.9	18.3	46.4
Other Levant	3.3	3.7	3.8	4.0	6.1	7.1	10.2	11.1	13.2	23.0
Total Levant	7.5	9.8	10.3	11.2	13.9	23.9	32.0	34.5	43.7	22.2
Egypt Domestic	2.2	2.7	3.0	3.2	13.2	15.6	21.8	24.2	27.5	20.9
Maghreb Duty Free	0.6	1.0	1.2	1.3	33.2	5.8	10.2	11.4	14.1	34.4
Other North Africa	1.2	1.4	1.4	1.6	7.4	8.4	10.2	11.5	13.3	16.5
Total North Africa	4.0	5.1	5.6	6.1	14.7	29.8	42.2	47.1	54.9	22.5
Total Area	25.2	29.8	32.2	35.9	12.4	189.7	219.2	245.2	288.4	15.0

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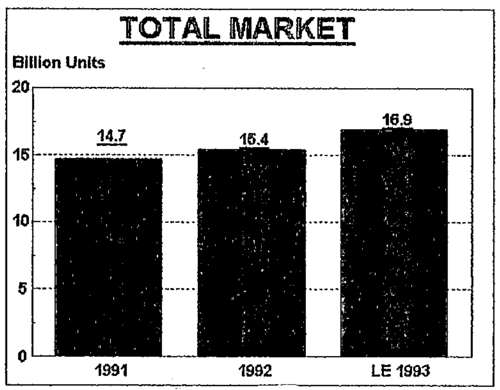
SAUDI ARABIA

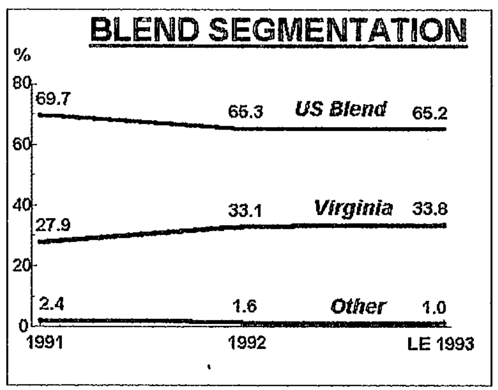
KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	16.9	18.6	3.2
PM Unit Volume (Bio)	7.7	9.3	6.4
PM Market Share (%)	45.8	50.0	4.2 pts
IFO ($ Mio)	96.7	122.5	8.2

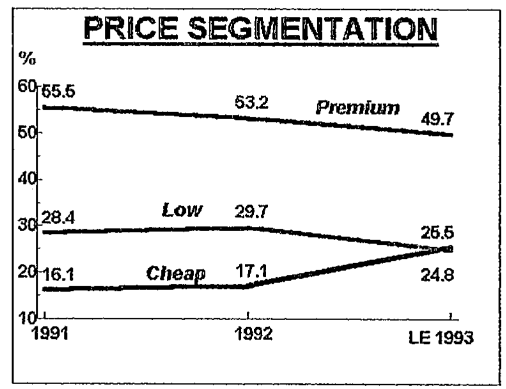
VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro	5.7	6.7	5.6	33.7	36.0	2.3
L&M	1.5	1.7	3.6	8.9	9.0	0.1
Visa	0.3	0.4	13.1	1.7	2.2	0.5
Merit	0.2	0.3	13.3	1.3	1.7	0.4
Others	-	0.2	100.0+	0.2	1.1	0.9

MARKET SITUATION

- The price war started by RJR in April 1993 and joined by all major manufacturers, together with the population shifts arising from the Gulf war have:
  - speeded the growth of the total market
  - increased the Virginia segment at the expense of the US Blend segment
  - increased the cheap segment at the expense of the low and premium segments.







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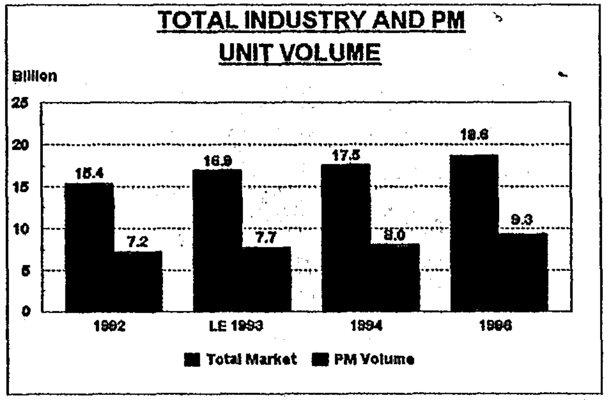
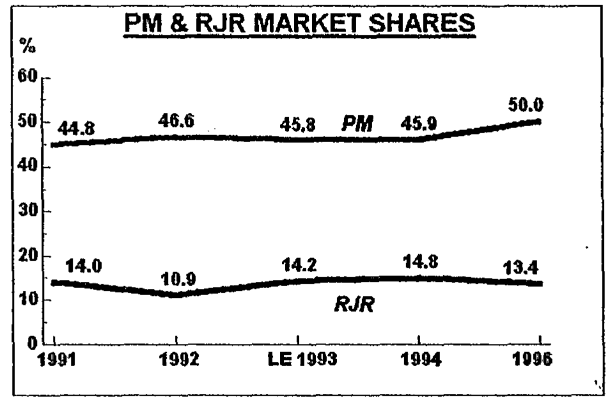
- As a result of the price war, and the decision to hold the price of Marlboro and L&M, PM's share growth stopped in 1993, although volume continued to increase, whilst RJR reversed its share decline.

- The key Plan assumptions that the price war will end by 1995 and a SAR 50 per 000 minimum specific duty will be introduced, will enable PM to resume market share growth and achieve a 50% market share by 1996, in a market which will continue to grow, albeit at a slower rate.





KEY ISSUES AND ACTION PLANS

Pricing and Taxation

- Led by RJR, all major competitors have reduced retail carton prices and/or launched new brands in the cheap segment.

Company	Brand	SAR/Carton	Blend	Reduction / New Brand
RJR	Winston	21	American	Reduction from SAR 38
	Gold Coast	15	American	Reduction from SAR 21
	Monte Carlo	14	American	Reduction from SAR 17
	Aspen	10	Virginia	Reduction from SAR 12
	Dickens & Grant	10	Virginia	New Launch
BAT / B+W	Viceroy	15	American	Reduction from SAR 21
	Hollywood	15	American	New Launch
Rothmans	London	15	Virginia	Reduction from SAR 17
	Guards	11	Virginia	New Launch
American Brands	Sovereign	10	Virginia	Reduction from SAR 15

- The only major competitor brands to have held price are PGL (BAT), at SAR 21, Rothmans KS at SAR 38, and Carlton (Gallaher) at SAR 38.
- PM has held the price of Marlboro and Merit (SAR 38) and L&M (SAR 21), reduced the price of Visa from SAR 17 to SAR 10, and launched California at SAR 15.
- The price war has been facilitated by the Saudi import duty structure, which is fully ad valorem at 30% of the CIF price with a low minimum specific of SAR 15 per 000 ($4 per 000)
- RJR is lobbying to eliminate the specific component completely, which will open up the possibility for further price cutting, whilst we want to increase the specific in order to narrow the price gaps.
- Within the GCC, there is a move towards duty harmonisation for all imported goods, and pressure from Health Ministers to increase duties on cigarettes.
- Saudi Arabia, Kuwait and UAE currently have a 30% duty on cigarettes, and Bahrain, Qatar and Oman have a 50% rate. Saudi Arabia is the only GCC country with a specific component.
- A 1987 Saudi Royal Decree, which has not yet been implemented, provided for an increase in the duty rate to 50%, with a minimum specific of SAR 40 per 000.
- Our objective is to keep the 30% rate as long as possible, whilst preparing the ground for a high minimum specific duty at the time of harmonisation.
- The Plan assumes that harmonisation at the 50% rate will occur as of January 1995, with a SAR 50 per 000 minimum specific.

- The high minimum duty will enable us to narrow price gaps, and increase the Marlboro carton price in 1995 ahead of other premium brands, as follows:

SAR per Carton	BASE PRICE (31/12/93)	1994	1995	1996
Major PM Brands				
Marlboro	38.00	38.00	43.00	43.00
L&M	21.00	21.00	28.00	31.00
California	15.00	15.00	21.00	26.00
Visa	10.00	10.00	18.00	21.00
Major Competitor Brands				
Rothmans KS	38.00	38.00	41.00	43.00
Players Gold Leaf / Winston	21.00	21.00	28.00	31.00
Gold Coast	15.00	15.00	21.00	26.00
Aspen	10.00	10.00	18.00	21.00
Inflation (%)		3	3	3

- The Plan assumes that a marketing contribution of $2.03 per 000 for Marlboro will be paid by the distributors as of 1995, thereby increasing PM's effective revenue per 000 for Marlboro from $28.70 to $30.00

Competition

- RJR's reported market share growth in 1993 has been led by its cheap Virginia brand, Aspen which, YTD October 1993, had a 1.5 points share increase to 2.5% of the market. However, the share growth of Gold Coast and Winston appears to be accelerating.

- BAT's decision to hold the price of PGL, its major brand, has resulted in a small total share loss for the company, although its cheap Virginia brand, Wills Gold Flake, continues to grow from a low base.

- Rothmans had a one-time share gain in 1993 with the acquisition of the London trademark; its other brands are flat or declining, with the exception of Guards, a cheap Virginia brand.

Brand Strategies

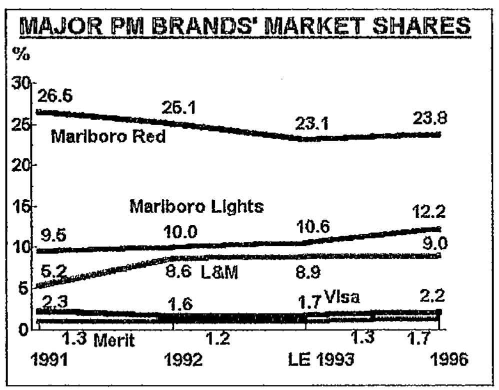
- Marlboro Red was losing share, although still gaining volume, prior to the outbreak of the price war, whilst Marlboro Lights was gaining both volume and share.

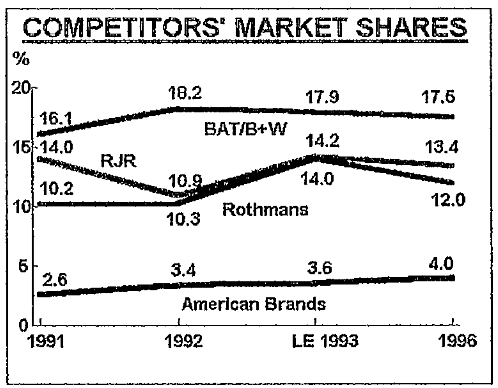
- Our Plan objective is to revitalise ***Marlboro Red*** and keep ***Marlboro Light***s growing, by giving the brand family a more modern image. To do this, we will further exploit our strong association with motor-sport and develop music as a second promotion platform. In addition, the value-offers will be extended with particular emphasis on pack offers to encourage new smokers and switchers. We will maintain our leadership at point-of-sale.

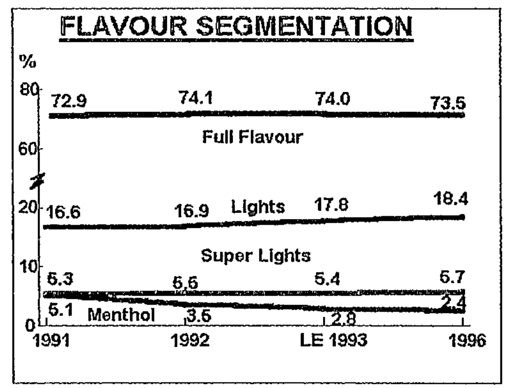
- Although the LTN and SLTN segments are not growing significantly, we will obtain an increased share for ***Merit*** by capturing Carlton smokers with Merit 1mg. This will be achieved by widening distribution, and value-offers to induce trial.

- To sustain ***L&M***'s existing price of SAR 21 per carton, additional monies were invested in promotion and point-of-sale in 1993. This effort will be continued via the placement of permanent display units for L&M, with emphasis on B and C class outlets, where Gold Coast and Winston have a high presence.

- Visa's price reduction in 1993 gained a quick volume impact, which was not sustained. In the Plan period, we will target distribution in Saudi East, where there is a particular problem, particularly in the non-urban areas. Also the consumer contacts in work camps will be extended.







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- *California* was launched at the end of October 1993, and to date, has been disappointing. The Plan will see heavy concentration on consumer contact work in order to induce switch selling against Gold Coast smokers. Consideration will be given to resourcing the brand ex-Brazil in order to obtain more favourable SVCs.

- *Red and White* is included in the Plan as of 1995, however will probably be launched in the first half of 1994, to compete with RJR's Aspen. Red and White will be a Virginia brand sourced from PM Australia, and will retail at SAR 2 - 3 per carton above Aspen. This price is justified by Red and White's heritage from Pakistan, where it is growing. It will be targeted at the Asian working population.

UPSIDE / DOWNSIDE

In addition to the Plan assumption of a 50% duty with a SAR 50 per 000 minimum specific, and our corresponding retail price assumptions, there are other potential duty and retail price scenarios, which if implemented, will have a major impact on volume and IFO. These scenarios can be summarised as follows:

	1994		1995		1996	
	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)	Volume (Mio)	IFO ($ Mio)
No change in duties, price war ends, higher FAS prices	-	-	105	14.2	43	9.2
No change in duties, price war continues, no price increase	-	-	105	(6.2)	43	(13.0)
50% duty, no minimum specific, price war ends	-	-	105	(6.5)	43	(13.4)
50% duty, no minimum specific, price war continues	-	-	235	(27.6)	53	(36.2)

SAUDI ARABIA - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	($ PER 000) OB 1994	($ PER 000) 1995	($ PER 000) 1996	CAG % LE 93-96
Cig. Volume (Millions)	7,737.0	8,035.0	8,656.0	9,307.0	6.35%					
Net Operating Revenues	197,012	203,959	211,282	234,649	6.00%	25.46	25.38	24.41	25.21	(0.33)%
Std Variable Cost	64,013	67,714	74,852	84,312	(9.62)%	8.27	8.43	8.65	9.06	(3.07)%
SVC Deviations	(325)	312	331	360	N.A.	(0.04)	0.04	0.04	0.04	N.A.
LIFO	2,635	2,781	3,070	3,459	(9.49)%	0.34	0.35	0.35	0.37	(2.95)%
Marginal Contribution	130,689	133,152	133,029	146,518	3.88%	16.89	16.57	15.37	15.74	(2.32)%
Direct Marketing	9,914	9,844	10,336	10,853	(3.06)%	1.28	1.23	1.19	1.17	3.09%
Marketing Contribution	-	-	(10,336)	(10,853)	N.A.	-	-	(1.19)	(1.17)	N.A.
Office Expenses	1,203	1,677	1,727	1,779	(13.93)%	0.16	0.21	0.20	0.19	(7.13)%
Other Indirect Marketing	640	510	525	541	5.45%	0.08	0.06	0.06	0.06	11.09%
Controllable Margin	118,932	121,121	130,777	144,198	6.63%	15.37	15.07	15.11	15.49	0.26%
Alloc. Office Expenses	1,883	1,616	1,626	1,601	5.26%	0.24	0.20	0.19	0.17	10.92%
Fixed Manufacturing Exp.	20,303	19,851	21,109	22,962	(4.19)%	2.62	2.47	2.44	2.47	2.04%
General & Administrative	58	75	83	89	(15.34)%	0.01	0.01	0.01	0.01	(8.45)%
Income from Operations	96,688	99,579	107,959	119,546	7.33%	12.50	12.39	12.47	12.84	0.92%

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SAUDI ARABIA - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					*MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	15.40	16.90	17.50	18.00	18.60					
Marlboro Red	3.86	3.90	4.06	4.19	4.43	25.1	23.1	23.2	23.3	23.8
Marlboro Lights	1.55	1.79	1.87	2.05	2.27	10.0	10.6	10.7	11.4	12.2
TOTAL MARLBORO	5.41	5.69	5.93	6.24	6.70	35.1	33.7	33.9	34.7	36.0
L&M	1.32	1.50	1.37	1.48	1.67	8.6	8.9	7.8	8.2	9.0
Merit	0.18	0.22	0.28	0.29	0.32	1.2	1.3	1.6	1.6	1.7
Visa	0.24	0.29	0.39	0.40	0.42	1.6	1.7	2.2	2.2	2.2
PM Menthol	0.02	0.02	0.02	0.02	0.02	0.1	0.1	0.1	0.1	0.1
California		0.02	0.05	0.08	0.10		0.1	0.3	0.5	0.5
Red & White				0.06	0.08				0.3	0.5
TOTAL PM	7.17	7.74	8.04	8.57	9.31	46.6	45.8	45.9	47.6	50.0

* Market shares reflect in-market sales

SAUDI ARABIA - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	46.6	45.8	45.9	47.6	50.0
RJR	10.9	14.2	14.8	14.0	13.4
BAT/B+W	18.2	17.9	17.8	17.6	17.5
Rothmans	10.3	14.0	13.5	12.8	12.0
Gallaher	3.4	3.6	4.0	4.0	4.0
Others	10.6	4.5	4.0	4.0	3.1
Total Market	100.0	100.0	100.0	100.0	100.0

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SAUDI ARABIA - NEW BRAND PROFILE

RED AND WHITE	OB 1994	1995	1996
Launch Date: 1995			
Unit Volume (Millions)		60	85
Market Share (%)		0.3	0.5
Retail Price - Year End (SAR/Pack)		2.50	2.50
Retail Price - Year End (SAR/Carton)		21.00	23.00
FAS Price ($/000)		9.63	11.26
Net Ex-factory Price - Year Average ($/000)		0.75	2.06
Marginal Contribution - Year Average ($/000)		1.00	1.00

Rationale

Since the Gulf War, the population mix has experienced a pronounced shift. Pakistanis, Indians and other Asians replaced the Yemenis and Palestinians expelled from the Kingdom. This gave impetus to the low price, Virginia segment.

RJR has entered this segment with Aspen, which recorded sales of over 400 million units in Saudi during the 12 months to October 1993.

Red & White will be sourced from PM Australia, and the launch may be brought forward to 1994 if Aspen's growth accelerates.

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SAUDI ARABIA - MARLBORO PRICE STRUCTURE

SAR PER 000 CIGARETTES	BASE PRICE (31/12/93)	INCREASES 1994	1995	1996	END PRICE (31/12/96)
MARLBORO RED BOX					
Manufacturer	107.63	-	(2.74)	-	104.89
Freight and Insurance	1.99	-	-	-	1.99
Taxes	37.13	-	20.48	-	57.61
Trade	48.25	-	7.26	-	55.51
Total Price Increase		-	25.00		
Ending Retail Price					
- SAR per 000	195.00	195.00	220.00	220.00	220.00
- SAR per Carton	38.00	38.00	43.00	43.00	43.00
- SAR per Pack	4.00	4.00	4.50	4.50	4.50
Date of Increase		-	January	-	
Inflation (%)		3	3	3	
Marginal Contribution (Average)					
- $ per 000		20.56	19.54	19.24	
Exchange Rate (Average)		3.75	3.75	3.75	
FAS Price - $ per 000		28.70	27.97	27.97	
Marketing Contribution - $ per 000		-	2.03	2.03	
PM Revenue (incl. Marketing Cont.) - $/000		28.70	30.00	30.00	

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SAUDI ARABIA
COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	7.7	8.0	8.6	7.7	8.4	9.0	-	(0.4)	(0.4)
OPERATING REVENUES	197.0	203.9	211.3	208.0	235.5	264.4	(11.0)	(31.6)	(53.1)
MARGINAL CONTRIBUTION	130.7	133.1	133.0	135.1	154.0	174.0	(4.4)	(20.9)	(41.0)
FME	20.3	19.8	21.1	21.1	23.2	25.2	0.8	3.4	4.1
DIRECT MARKETING	9.9	9.8	-	10.7	11.2	11.8	0.8	1.4	11.8
INDIRECT MARKETING	3.7	3.8	3.8	4.5	4.5	4.6	0.8	0.7	0.8
G&A	0.1	0.1	0.1	-	-	-	(0.1)	(0.1)	(0.1)
TOTAL EXPENSES	13.7	13.7	3.9	15.2	15.7	16.4	1.5	2.0	12.5
INCOME FROM OPERATIONS	96.7	99.6	108.0	98.8	115.1	132.4	(2.1)	(15.5)	(24.4)

The negative IFO variance is due to the impact of the price war, begun by RJR in April 1993, which impacted both FAS prices and volume mix.

This year's Plan assumes a marketing contribution by the distributors in 1995

IRAN

Total 1993 consumption is estimated at 43 billion units and increasing. Local monopoly brands account for nearly 75% of sales, of which approximately half is produced locally. The rest of local brand volume is made under contract in Germany and Switzerland.

RJR's lead in the growing international segment is diminishing owing to gains by Marlboro in the premium segment and Bond Street in the low price category.

Our goal remains to displace RJR in the market, as their success in Iran underwrites their disruptive pricing tactics elsewhere in the Middle East and beyond. To do this we must:

- Keep PM brands price competitive at wholesale and retail;
- Expand distribution in all key cities in Iran and commence penetration in the rural areas; and
- Increase our influence with the monopoly and key decision makers.

KEY ISSUES AND ACTION PLANS

Pricing

- To remain price competitive versus Winston in the premium segment (TM 140-150/pack) we have maintained the FAS price on Marlboro in 1993. The Plan assumes regular increases, however, implementation of increases will depend on RJR pricing tactics.
- Likewise, we will price Bond Street to keep it growing in the expanding cheap international segment (TM 65-70/pack).

- We will continue to lobby for reduction of the import duty on cigarettes which, at the current TM 15,000/000 ($86.70) rate, penalises legitimate importers.

Distribution

- In 1994 our distributor will continue to increase sales and merchandising head count and boost direct sales calls 20% to 8,000 POS. To increase penetration in less populated areas, the number of sub-distributors will increase from 8 to 21. To counter Winston's strength among street vendors and gain visibility we will provide 1,000 hawkers' tables.

Monopoly Relations

- The Iranian Tobacco Company (ITC), the local monopoly, is the most important factor in the domestic cigarette market. To increase PM influence with ITC, PM signed a protocol in October 1993 providing for:
  - Contract manufacture of ITC's Bahman and Tir brands,
  - Agronomy, technical assistance and training,
  - License of a PM trademark to ITC for local manufacture, and
  - A feasibility study for a joint venture.

Our aim is to implement this agreement rapidly and further diminish RJR as a factor in the market. We will also lobby to persuade the government to implement realistic import duties.

EGYPT DOMESTIC

KEY FINANCIALS	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	40.0	40.2	0.3
PM Unit Volume (Bio)	2.3	3.3	13.4
PM Market Share (%)	5.6	8.1	2.5
IFO ($ Mio)	15.6	20.9	10.2

VOLUME AND MARKET SHARE	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro Red	2.0	2.8	11.9	5.0	6.9	1.9
Marlboro Lights	0.1	0.2	7.2	0.3	0.4	0.1
Merit	0.1	0.2	35.7	0.2	0.5	0.3
L&M	-	0.1	44.2	0.1	0.3	0.2

MARKET SITUATION

- Industry sales are forecast to remain stable at 40 billion units, with licensed production of international brands increasing to 9% of the total market by 1996. PM currently holds over 90% of this segment and is gaining.
- Imports of finished cigarettes are subject to high duties and volume is negligible. Import duties on tobacco are low, however, and entirely specific, reflecting the fact that the monopoly, Eastern, is obliged to import all its tobacco.
- The current two-tier excise tax structure is wholly specific, but the IMF and World Bank are pressing for a switch to ad valorem taxation and a reduction in import tariffs. VAT will likely be introduced in 1995.
- PM brands are licensed to a local partner, Loufty Mansour, and in turn manufactured on a contract basis by the monopoly, for a flat fee of $5/000. Sales of Marlboro are progressing well and our income, derived from royalties and cut filler sales, has approximately doubled in three years.
- Our plan is to increase sales of our premium products to the maximum extent possible and to gain access to the low price, main-stream segment, by collaborating with Eastern to launch a joint brand.

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- Privatisation is a long range possibility, and we expect, by enhanced collaboration with Eastern to increase their dependence on PM, and to position ourselves favourably in the event of restructuring.

- Action Plans include:

  - Continuing successful programmes for Marlboro and Marlboro Lights, and line-extending Merit with Merit Ultra in 1994.
  - Continuing to support L&M in the mid-price segment.
  - Developing a joint low-price brand with Eastern, utilising their primary at Alexandria.
  - Implementing our new distribution system nation-wide, which is based on wholesalers but also utilises direct delivery to retailers, hence eliminating OOS and improving availability.
  - Lobbying for continued reasonable taxation and against anti-smoking initiatives.

UPSIDE / DOWNSIDE

Successful launch of a joint brand is the most material upside to our Plan; profit impact will depend on timing and terms of the eventual agreement.

A weaker Egyptian Pound, together with higher taxation, would halve planned price increases. The estimated adverse impact would be \$0.6 million in 1995 and \$1.0 million in 1996.

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EGYPT - INCOME STATEMENT
($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	2,297.0	2,810.0	3,070.0	3,320.0	13.06%					
Net Operating Revenues	33,345	42,049	47,677	53,610	17.15%	14.52	14.96	15.53	16.15	3.61%
Std Variable Cost	11,006	13,552	15,632	17,475	(16.66)%	4.79	4.82	5.09	5.26	(3.18)%
SVC Deviations	(4)	4	4	4	N.A.	-	0.00	0.00	0.00	N.A.
LIFO	748	944	1,061	1,184	(16.54)%	0.33	0.34	0.35	0.36	(3.08)%
Marginal Contribution	21,595	27,549	30,980	34,947	17.40%	9.40	9.80	10.09	10.53	3.84%
Direct Marketing	1,299	608	638	670	19.80%	0.57	0.22	0.21	0.20	29.07%
Office Expenses	856	1,481	1,503	1,529	(21.33)%	0.37	0.53	0.49	0.46	(7.31)%
Other Indirect Marketing	425	(19)	343	403	1.76%	0.19	(0.01)	0.11	0.12	13.11%
Controllable Margin	19,015	25,479	28,496	32,345	19.37%	8.28	9.07	9.28	9.74	5.58%
Alloc. Office Expenses	391	359	370	375	1.38%	0.17	0.13	0.12	0.11	12.78%
Fixed Manufacturing Exp.	1,388	1,647	1,788	1,934	(11.69)%	0.60	0.59	0.58	0.58	1.21%
General & Administrative	-	-	-	-		-	-	-	-	
Income from Operations	17,236	23,473	26,338	30,036	20.34%	7.50	8.35	8.58	9.05	6.43%

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EGYPT DOMESTIC - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	39.29	39.98	40.36	40.24	40.34					
Marlboro Red	1.67	2.00	2.40	2.60	2.80	4.24	5.00	5.95	6.46	6.94
Marlboro Lights	0.11	0.13	0.14	0.15	0.16	0.27	0.33	0.35	0.37	0.40
TOTAL MARLBORO	1.78	2.13	2.54	2.75	2.96	4.51	5.33	6.30	6.83	7.34
Merit	-	0.08	0.15	0.18	0.20	-	0.20	0.37	0.45	0.50
L&M	0.01	0.04	0.07	0.10	0.12	0.03	0.09	0.17	0.25	0.30
TOTAL PM	1.79	2.25	2.76	3.03	3.28	4.54	5.62	6.84	7.53	8.14

EGYPT DOMESTIC - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	4.5	5.6	6.8	7.5	8.2
Eastern	95.0	93.8	92.4	91.7	91.1
RJR	0.1	0.1	0.3	0.2	0.2
Rothmans	0.2	0.3	0.3	0.4	0.3
BAT	0.0	0.0	-	-	-
Other International	0.2	0.2	0.2	0.2	0.2
Total Market	100.0	100.0	100.0	100.0	100.0

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EGYPT - COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	2.3	2.8	3.1	2.6	4.6	6.3	(0.3)	(1.8)	(3.2)
OPERATING REVENUES	33.3	42.0	47.7	39.3	50.2	59.1	(6.0)	(8.2)	(11.4)
MARGINAL CONTRIBUTION	21.6	27.5	31.0	23.0	30.9	37.8	(1.4)	(3.4)	(6.8)
FME	1.4	1.6	1.8	1.7	2.0	2.3	0.3	0.4	0.5
DIRECT MARKETING	1.3	0.6	0.6	1.4	1.5	1.6	0.1	0.9	1.0
INDIRECT MARKETING	1.7	1.8	2.3	2.3	2.9	2.9	0.6	1.1	0.6
G&A	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	3.0	2.4	2.9	3.7	4.4	4.5	0.7	2.0	1.6
INCOME FROM OPERATIONS	17.2	23.5	26.3	17.6	24.5	31.0	(0.4)	(1.0)	(4.7)

Last year's Plan included a joint brand with Eastern by 1994. This project is progressing but has not been included in this year's Plan

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SUB-SAHARAN AFRICA

KEY FINANCIALS			
	LE 1993	1996	CAG (%) LE93-96
Total Market (Bio)	103.3	97.3	(2.0)
PM Unit Volume (Bio)	9.3	11.9	8.6
PM Market Share (%)	7.3	10.7	3.4 Pts
IFO ($ Mio)	32.9	52.7	17.5

VOLUME AND MARKET SHARE						
	Volume (Bio)			Market Share (%)		
	LE 1993	1996	CAG (%) LE93-96	LE 1993	1996	Pts. Change LE93-96
Marlboro Red	2.8	4.0	12.6	2.7	4.1	1.4
Marlboro Lights	0.1	0.3	+100	0.1	0.3	0.2
L&M	0.1	0.3	+100	0.1	0.3	0.2
Bond Street	1.0	2.1	28.1	1.0	2.1	1.1
Congress	0.7	1.0	12.6	0.7	1.0	0.3
Chesterfield	2.9	2.8	(1.2)	2.8	2.9	0.1

MARKET SITUATION

- Total 1993 cigarette consumption in Africa's 50 markets is estimated at 103 billion units. Sales of cigarettes are chiefly by the stick, owing to low disposable incomes. For the same reason, the premium price segment is very small.

- PM volume and income in 1993 benefited from higher export sales, despite the adverse impact of the devaluation of the French Franc, which is our billing currency in a number of markets.

- Our Plan assumes continued progress in export sales, and no change to our key license agreements with Bolloré (Ivory Coast and Senegal), Rembrandt (South Africa), and SITAR (Reunion).

- We plan to grow exports of Marlboro and low price Bond Street both in established markets and via initiatives in such new or recently opened markets as Tanzania, Malawi, Uganda, Djibouti, Sierra Leone, Kenya, Ghana, and Cameroon. This will entail developing distributors and pricing competitively. Because import duties and excise tax structures work to the advantage of already entrenched local manufacturers, we will actively lobby for reform. This will likely be most successful in markets where PM Companies is a material buyer of such African commodities as coffee, tobacco and cocoa.

- In the markets where Bolloré/Seita ("Coralma") is the sole manufacturer, we have had little success so far in achieving a co-operation agreement. Our aim in negotiations remains to secure Marlboro's leading position in the premium segment and to gain access to the below premium segments.

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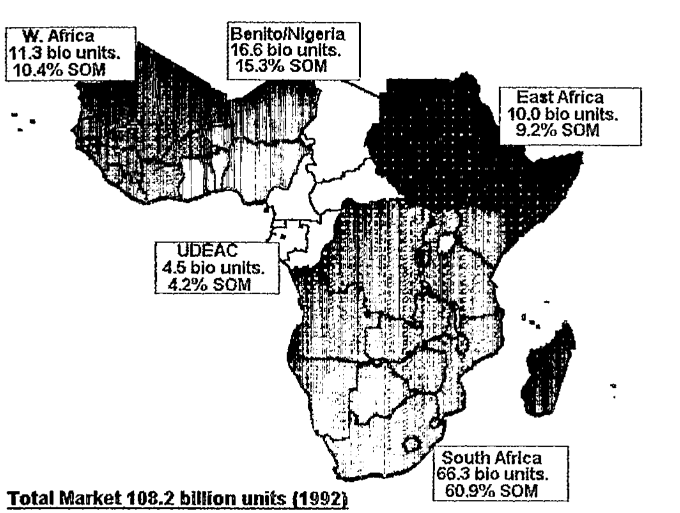
- In *Nigeria*, our plans include start up of local manufacture of Marlboro with cut filler early in 1994.
- In *Tanzania*, the authorities intend to privatise the monopoly, TCC. TCC is profitable and has the only factory in the 4 billion unit Tanzanian market, the only distribution system and local rights to the Sportsman and other regionally significant trademarks. We plan to appraise the value and potential of TCC and may propose to acquire it. Recognising the potential of Tanzania as a major leaf growing area, Universal Leaf are willing to approach the government jointly with PM.
- In *South Africa,* the agreements with Rembrandt and the uncertain political/economic outlook preclude initiatives for the time being.

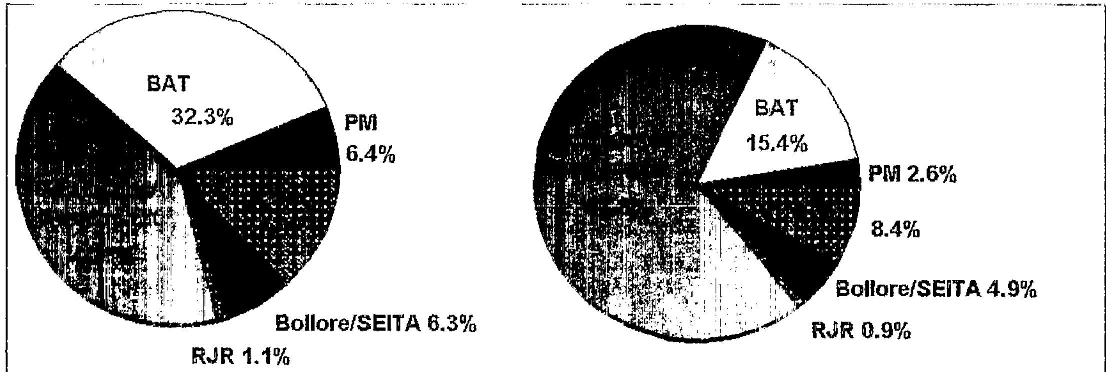
Competition

- ***Rothmans/Rembrandt*** is the leading factor in Africa, owing to a dominant position in the highly profitable South Africa Customs Union markets, numerous local manufacturing bases elsewhere paired with increasing UK exports and a strategic alliance with Coralma in West and Central Africa. Important recent initiatives include purchase of an equity stake in the Coralma holding company ("Albatros Investissement") and a pending greenfield factory in Nigeria.
- ***BAT*** is the second competitor in Africa with dominant market positions in East Africa (except Tanzania) and good representation elsewhere except West and Central Africa. BAT's brand portfolio is ageing, however, and concentrated at the low end of the market. The company's once unassailable political strength is now eroding.
- ***Coralma*** (Bolloré 60%; Seita 40%) has factories in Ivory Coast, Senegal, Guinea, Burkina Faso, Madagascar, Congo, Gabon, Chad, and CAR. Coralma's monopoly of manufacture in 8 of the markets is reinforced by high tariffs which render imports uneconomic and by cost sharing in printing, filters, tobacco processing, and shipping. Coralma is highly vulnerable to the CFA/French Franc exchange rate and ownership of the partnership may be unstable, as Seita is set to be privatised, which might require restructuring of shared interests.
- ***RJR's*** investment in Africa is immaterial and apart from opportunistic duty free business, ongoing trade is limited to exports of Camel to South Africa, and licensed production of Winston in South Africa.
- ***ATW*** and ***Papastratos*** are also active as exporters on a small scale and ***Reemtsma*** is present in Cameroon, although operations are suspended due to allegations of fraud. ***Japan Tobacco*** are not as yet a factor in Africa.
- Estimates of competitor volume and earnings, including royalties, tobacco sales and other "off shore" income for 1992 are set out below. Figures are EEMA estimates only and are intended to suggest approximate relative performances.

TOTAL CIGARETTE MARKET (1992)



Total Market 108.2 billion units (1992)



1992 Competitor Market Shares

1992 Estimated Income by Competitor
Total: $636 Million

- Estimates of competitor volume and earnings, including royalties, tobacco sales and other "off shore" income for 1992 are set out below. Figures are EEMA estimates only and are intended to suggest approximate relative performances.

UPSIDE / DOWNSIDE

The impact of a 50% devaluation of the CFA Franc from mid-1994 would be to reduce 1994 earnings by $5 million; 1995 earnings by $13 million, and 1996 earnings by $15 million.

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SUB-SAHARAN AFRICA - INCOME STATEMENT ($ 000)

	LE 1993	OB 1994	1995	1996	CAG % LE 93-96	($ PER 000) LE 1993	OB 1994	1995	1996	CAG % LE 93-96
Cig. Volume (Millions)	9,292.4	10,390.2	11,229.5	11,946.4	8.74%					
Net Operating Revenues	106,647	120,623	140,317	154,834	13.23%	11.48	11.61	12.50	12.96	4.14%
Std Variable Cost	46,701	54,525	62,223	69,397	(14.11)%	5.03	5.25	5.54	5.81	(4.95)%
SVC Deviations	(670)	184	196	203	N.A.	(0.07)	0.02	0.02	0.02	N.A.
LIFO	1,369	1,685	1,891	2,045	(14.31)%	0.15	0.16	0.17	0.17	(5.13)%
Marginal Contribution	59,247	64,229	76,007	83,189	11.98%	6.38	6.18	6.77	6.96	2.98%
Direct Marketing	6,507	6,309	6,804	6,924	(2.09)%	0.70	0.61	0.61	0.58	6.11%
Office Expenses	9,076	7,912	8,573	9,002	0.27%	0.98	0.76	0.76	0.75	8.28%
Other Indirect Marketing	(510)	358	385	403	N.A.	(0.05)	0.03	0.03	0.03	N/A
Controllable Margin	44,174	49,650	60,245	66,860	14.82%	4.75	4.78	5.36	5.60	5.59%
Alloc. Office Expenses	-	-	-	-		-	-	-	-	
Fixed Manufacturing Exp.	11,017	11,912	12,954	13,713	(7.57)%	1.19	1.15	1.15	1.15	1.07%
General & Administrative	233	346	417	508	(29.67)%	0.03	0.03	0.04	0.04	(19.25)%
Income from Operations	32,924	37,392	46,874	52,639	16.93%	3.54	3.60	4.17	4.41	7.54%

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SUB-SAHARAN AFRICA - UNIT VOLUME AND MARKET SHARE

	VOLUME (BIO)					MARKET SHARE (%)				
	ACTUAL 1992	LE 1993	OB 1994	1995	1996	ACTUAL 1992	LE 1993	OB 1994	1995	1996
TOTAL MARKET	108.20	103.30	101.30	99.30	97.30					
Marlboro Red	2.70	2.80	3.20	3.80	4.00	2.5	2.7	3.2	3.8	4.1
Marlboro Lights	0.10	0.10	0.20	0.20	0.30	-	0.1	0.2	0.2	0.3
Marlboro Menthol	-	-	-	-	-	-	-	-	-	-
TOTAL MARLBORO	2.80	2.90	3.40	4.00	4.30	2.5	2.8	3.4	4.0	4.4
L&M	0.10	0.10	0.20	0.20	0.30	0.1	0.1	0.2	0.2	0.3
Bond Street	0.20	1.00	1.50	1.80	2.10	0.2	1.0	1.5	1.8	2.1
Congress	0.70	0.70	0.90	1.00	1.00	0.7	0.7	0.9	1.0	1.0
Chesterfield	3.20	2.90	2.80	2.80	2.80	2.9	2.8	2.7	2.8	2.9
Others	-	-	-	-	-	-	-	-	-	-
TOTAL PM	7.00	7.60	8.80	9.80	10.50	6.4	7.3	8.7	9.9	10.7

SUB-SAHARAN AFRICA - COMPETITOR MARKET SHARES (%)

	1992	LE 1993	OB 1994	1995	1996
Philip Morris	6.4	7.3	8.7	9.9	10.7
BAT	32.3	33.0	33.0	33.0	33.0
Rothmans	40.7	41.2	40.0	39.0	38.0
RJR	1.1	1.0	1.0	1.0	1.0
Bollore	4.2	4.0	3.7	3.3	3.0
Seita	2.1	2.0	2.1	2.2	2.3
Others	13.2	11.5	11.5	11.6	12.0
Total Market	100.0	100.0	100.0	100.0	100.0

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SUB-SAHARAN AFRICA
COMPARISON WITH LAST YEAR'S PLAN
($ MILLIONS)

	1994 - 1996 PLAN			LAST YEAR'S PLAN			FAVORABLE/(UNFAVORABLE)		
	LE 1993	OB 1994	1995	1993	1994	1995	1993	1994	1995
UNIT VOLUME (BIO)	9.3	10.4	11.2	9.1	9.8	10.5	0.2	0.6	0.7
OPERATING REVENUES	106.6	120.6	140.3	111.7	130.9	147.3	(5.1)	(10.3)	(7.0)
MARGINAL CONTRIBUTION	59.2	64.2	76.0	63.5	75.8	85.5	(4.3)	(11.6)	(9.5)
FME	11.0	11.9	12.9	11.6	12.6	13.5	0.6	0.7	0.6
DIRECT MARKETING	6.5	6.3	6.8	8.3	8.6	8.8	1.8	2.3	2.0
INDIRECT MARKETING	8.6	8.3	9.0	10.6	11.1	11.6	2.0	2.8	2.6
G&A	0.2	0.3	0.4	0.2	0.3	0.3	-	-	(0.1)
TOTAL EXPENSES	15.3	14.9	16.2	19.1	20.0	20.7	3.8	5.1	4.5
INCOME FROM OPERATIONS	32.9	37.4	46.9	32.8	43.2	51.3	0.1	(5.8)	(4.4)

The negative IFO variance is mainly due to a weaker French Franc in this year's Plan.

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